RBS
The Royal Bank of Scotland Group

# Annual Review and Summary Financial Statement 2009


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# What's inside



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We are one year into our five year turnaround plan and have taken significant steps along the path to recovery.

# What we have achieved

## 2009 business achievements

The problems we faced have been assessed, disclosed and mitigated.

The essential value of RBS is intact. All our Core businesses are functioning normally, and our customer franchises are proving resilient.

We have set out the roadmap to recovery, with a clear strategy that is supported inside and outside RBS.

We now have the tools we need to do the job: the right leadership, appropriate levels of new capital and contingency protection.

We are delivering our Strategic Plan ahead of schedule on both value creation (improvement of Core Bank) and risk reduction (Non-Core run-off).

The greatest risks are behind us.

### 2009 key highlights

| | |
|---|---|
| Significantly lower loss attributable to ordinary and B shareholders | £3.6 billion |
| Strong Core Bank operating profit (1) | £8.3 billion |
| Strong Core Bank return on equity (2) | 13% |
| Total assets reduced by (3) | £696 billion |
| Funded balance sheet reduced by (3) | £143 billion |
| Core Tier 1 ratio (3) | 11.0% |

## Our 2013 vision

### Enduring customer franchises

- A universal bank, anchored by retail and commercial activities with strong, complementary investment banking capability
- A top-tier competitor in our chosen markets

### Safer and more focused

- Capital and liquidity strength meeting the highest international standards
- Gross reduction in funded assets of £500 billion achieved

### A valuable, private sector bank

- Consistently profitable, with sustainable shareholder returns targeted at 15% on our tangible equity capital
- The Government will have sold or at least begun to sell its shares at a profit

Notes:

(1) Before tax, amortisation of purchased intangible assets, write-down of goodwill, integration and restructuring costs, gain on redemption of own debt, strategic disposals, gains on pensions curtailment, bonus tax and RFS Holdings minority interest. Statutory operating loss before tax of £2.6 billion.

(2) Indicative Core attributable profit, taxed at 28% on attributable core spot tangible equity (circa 70% of Group tangible equity based on risk-weighted assets).

(3) Pro forma excluding RFS Holdings minority interest.

# Chairman's statement

Philip Hampton, Chairman

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Philip Hampton at www.rbs.com/annualreport2009

For biographies
**see pages 8-11**

"I hope that the Group's results give you the clarity about our performance and direction that enables you to share the confidence I have in the brighter future for RBS."

2009 was a year of profound change and substantial challenges for RBS. But, in the course of the year, we have put in place the building blocks of our recovery plan and have begun the process of restoring the company to good health. The Group now has appropriate levels of new capital and our job is to make it work on behalf of shareholders.

**Economic backdrop – a deep recession, but signs of recovery**
Last year was a tumultuous one for the global economy. In our most important market, the UK, gross domestic product shrank by 4.8% in real terms. Significant contractions were also registered in the USA and, in particular, Ireland.

The recession hurt many of our customers, with unemployment rising sharply and corporate profitability coming under pressure, which in turn led to a marked deterioration in credit quality. In addition, lower interest rates squeezed margins on many of our savings products. Viewed in that context, there are resilient aspects of our performance in another disappointing year of overall losses.

More positively, the economic environment started to improve in the second half of the year, with the USA and UK emerging from recession, and many asset prices rising sharply. Expectations for growth in 2010 are muted, and important adjustments still need to take place in the global economy. We plan for the future on a conservative basis. But we take comfort from the fact that we appear to be moving into the recovery phase.

**External influences – a price worth paying**
The benefits to RBS of political involvement, in the widest possible sense, are significantly larger than the costs. Put simply, if RBS hadn't received government support, it wouldn't be here today. Moreover, the extent of the support it received means we are in a position to rebuild carefully on our strengths.

This support has come at a price, most notably the divestments we are required to make as part of our settlement with the European Commission. These partly relate to the Commission's views on market share, with a particular focus on our small and medium-sized enterprise (SME) business in the UK, and will lead to the sale of the RBS branch network in England and Wales, and, the NatWest branches in Scotland. Other divestments are intended to act as a deterrent to companies seeking state aid, most notably the required sale of our insurance business.

This is not how we would have chosen to change RBS, because our absolute priority is restoring value for investors, including the UK taxpayer. Collectively, the businesses we will sell represent under 15% of the Group, and the disposals are a distraction we would have preferred to avoid. However, we have four years to make all our disposals. In that time frame, we are confident we can minimise any adverse impact and we expect to get proper value for shareholders.

The Government's Asset Protection Scheme (APS) comes with a high price tag, but is a worthwhile investment on two counts. First, it enables us to pass the Financial Services Authority's stress tests. The insurance element of the scheme is the only way we could realistically achieve that. Second, it fills the hole in our capital ratios created by the losses we made in 2009, the further charges we expect to make in 2010, and the associated increase in risk-weighted assets from pro-cyclicality and regulatory change. We need the support of the APS if we are to accomplish our goals.

It is the Board's view that the restructured terms of the APS, which were endorsed by independent shareholders in December 2009, represent a better outcome for shareholders than the outline agreement reached in February 2009, when market conditions were much more uncertain and difficult. It insures fewer assets and costs less. We do not expect to claim losses under the APS, but it does provide valuable protection in the event of more challenging economic conditions. We have also agreed how, if we wish to do so, we can cancel the scheme at any stage. Finally, the fees have substantially reduced and we retain our deferred tax assets.

### Shareholders – rebuilding confidence and trust

We know that we have to rebuild confidence and trust with investors. We believe the best way to do that is to combine clear performance targets with improved disclosure. Enhanced transparency will enable shareholders – both government and private – to measure and judge performance as we work to restore the Group's financial performance. UK Financial Investments has been a demanding, engaged and active shareholder, most prominently on remuneration issues. However, it has at all times acted in a manner consistent with its status as an arm's length, commercial investor, which intends to sell its interests in RBS at the earliest attractive time.

### Remuneration reform – leading the way

Throughout 2009, one of the biggest challenges we faced was balancing public and political concerns on bankers' pay with the long-term interests of all our shareholders. We share the public's concerns and we understand that it is impossible to defend some of the historic pay practices of the industry. Reform is needed. We said we would lead that reform and I believe we have: our policies on clawback and deferral of bonuses, announced in February 2009, went further than other banks and further than the subsequent G20 proposals.

The losses the Group has recorded this year are driven by the legacy of actions taken in the past for which responsibility has been allocated. The relevant people are no longer with the Group. The bonus payments made this year are targeted at the staff who are tasked with the job of returning the Group to profitability by delivering sustainable growth in our Core business and managing down the legacy exposures in our Non-Core Division.

On bonus payments for 2009, we were guided by a policy to pay the minimum necessary to retain and motivate staff who are critical to the recovery of RBS. The Board believes it would have undermined the profitable core of the business and damaged shareholder value had we recommended less. It is essential that talented people do not feel disadvantaged in working to restore value to RBS, compared with other banks. Nonetheless, the Board believes the position we have reached – developed by the Remuneration Committee, endorsed by the Board and accepted by UKFI, who for one year only held a legal right to consent – strikes an appropriate balance.

With regard to our Group Chief Executive, Stephen Hester was recruited 15 months ago to lead the RBS turnaround. The Board's Remuneration Committee considers that Stephen Hester significantly outperformed the targets he was set for 2009 and intended to award a bonus commensurate with that view. He decided to waive this bonus award, given public controversy on banking pay and the potential for his bonus to divert attention from and weaken support for the RBS turnaround and recovery. However, it remains the Board's intention over the course of the recovery period to reward the Chief Executive fairly, appropriately and at market levels for achievement against the targets we have published to make the bank safe, successful and valuable again. Gordon Pell, Deputy Chief Executive, who retires at the end of March 2010, also waived any bonus award for 2009.

### Governance – comprehensive change to Board and Executive Management

We have made comprehensive changes to the Board and the Executive Management team. The Board is now the right size – smaller – and combines the skills and experience we need to rebuild the company. Sir Sandy Crombie, Bruce Van Saun, and Phillip Scott all joined in 2009, while Penny Hughes joined in 2010.

Our strategy involves the introduction of new management disciplines to ensure that the RBS of tomorrow will be fundamentally different from the RBS of yesterday – in risk, in focus on customers and in accountability. Our new Board Risk Committee is a good example of the changes we have already set in motion. It will regularly analyse the risk profile of the Group, identify any longer term threats and make recommendations to the Board as appropriate.

### Serving our communities

We are acutely aware of our responsibility to repay the support we've received and to enable the UK taxpayer to exit from the investment in RBS. But there is more we can do to support our customers and the wider communities we serve. For example, we've been at the forefront of measures taken to minimise mortgage repossessions and to guarantee overdraft prices for small businesses.

The Group is justly proud of its MoneySense programme, now in its sixteenth year, which strives to increase financial capability and inclusion. This programme has a special focus on schools, with 600 RBS employees delivering new lessons to over one-third of a million pupils each year.

Finally, we are satisfied that we are fulfilling both the letter and the spirit of our lending commitments, which were to make an additional £9 billion available to the mortgage market and £16 billion to creditworthy businesses. On the former, we have beaten our target. On the latter, we have achieved £60 billion of gross new lending to businesses, including £39 billion to SMEs, but, in the current economic environment, many customers have been strongly focused on reducing their borrowings. Moreover, the withdrawal of foreign lenders has been less pronounced than anticipated, there has been a sharp increase in capital market issuance and demand has been weak in the teeth of the recession. As a result we have not achieved our £16 billion net lending target. Even so, we are ready, willing and able to lend, and approved 85% of loan applications during 2009, a rate consistent with previous years.

### A new phase for RBS

We are moving purposefully to a new phase for RBS. We have a focused team and a clear strategy. We have removed the main barriers that were in our way. If we do the right things for our customers we'll be doing the right things for our shareholders. I hope that the Group's results give you the clarity about our performance and direction that enables you to share the confidence I have in the brighter future for RBS.

**Philip Hampton**
Chairman

# Group Chief Executive's review

Stephen Hester, Group Chief Executive

Watch or listen to
Stephen Hester at www.rbs.com/annualreport2009

For biographies
**see pages 8-11**

"RBS is being restructured and run to serve customers well, to be safe and stable and to restore sustainable shareholder value for all."

Everyone at RBS is conscious of the responsibilities that lie with us to ensure recovery of the support the Bank has received. In that context it is pleasing to be able to report some big steps on our recovery path, which I outline in this review.

**Goals**
Put simply, we have three overriding objectives:

- to serve our customers well;
- to restore the Bank to undoubted standalone strength; and
- to rebuild sustainable value for all shareholders and in so doing to enable the UK Government to sell its shareholding profitably over time.

The riskiest part of RBS's journey is now behind us. There are four years left of our recovery plan. Each year we expect to report strong, measurable progress.

**Strategy**
Our strategy is simple and its concepts are well tested in this and other industries. Its implementation, however, constitutes one of the largest and most far-reaching company restructurings yet seen globally.

We aim to remake RBS as one of the world's most admired, valuable and stable universal banks. Driven by market-leading businesses in large customer-driven markets, RBS targets 15%+ sustainable returns on equity from a stable AA category risk profile and balance sheet.

We are concentrating RBS around the competitive strengths we enjoy in each of our Core business Divisions. We are focusing on what we are good at and making it better. At the same time we are reducing our balance sheet, risk and funding exposures through massive restructuring and are reducing both scale and scope in areas where we are not naturally strong. We are re-engineering cost structures and have embarked on overdue business investment. Cross-cutting management and cultural change has also been comprehensive.

**Results and progress**
2009 saw pleasing progress toward our three main goals.
On every published measure the Group is ahead of our Strategic Plan at this stage. However, the challenges of the starting point mean it will take until the end of our Plan period for overall profitability to meet our aspirations.

**Customers**
In 2009, our Core businesses sustained their market positions, with customer numbers steady or growing across the Group's major retail and corporate business lines, thereby confirming the essential health and value that underpins RBS's businesses. This is also a testimony to the efforts and endurance of our people. We can and must do better still, however. The new RBS will be known for its unswerving focus on customers.

**Risk**
We have also made substantial progress in restoring strength and improved risk management to RBS – both under our own steam and thanks to government support and improving markets. Our overall balance sheet is already £696 billion below its peak and the funded balance sheet is £351 billion lower, in constant currency terms; 70% of our targeted reduction is behind us. Our funding and liquidity resilience has dramatically improved. Our loan to deposit ratio is down from its 154%

peak to 135%, and in our Core business is just 104% compared with our 2013 target of c.100%. Our Core Tier 1 capital ratio is a robust 11.0%, which we expect to be enough to meet the further challenges we anticipate in 2010 before the expected recovery takes stronger hold in 2011, and to take account of the direction of regulatory change.

UK Government support has enabled our capital improvement. This support also encompasses the Asset Protection Scheme (APS) and related Contingent Capital Line finalised in December, and accompanied by European Union sign-off, subject to agreed remedies. We do not expect to receive any net payment under the APS or to have to convert contingent capital into equity, and we target an exit from the arrangements by 2012/13, subject to regulatory approval. They do, however, provide valuable tail risk protection whilst we exit the remaining excess risk exposures and until economic recovery is completely established.

### Profits

Goal number three, restoration of sustainable shareholder value, will take the longest, though its prospect is becoming clearer. To achieve this goal we need to make sure that our Core business improvement measures succeed and to complete the Non-Core exit; we also need economic recovery. Nevertheless, progress in 2009 was encouraging. Our Core business posted operating profit of £8.3 billion (up 89% on 2008). £5.7 billion of these profits came from Global Banking & Markets (GBM), our investment banking arm, which successfully took advantage of buoyant markets despite the handicaps of its own radical restructuring. While we expect this level of core profits to decrease in 2010 as GBM's markets normalise, our retail and commercial businesses, which we believe reached their cyclical trough in 2009, should bounce back in the coming years, eventually constituting a stable two-thirds of Group profits.

In our Non-Core Division, rapid progress on divestments, asset run-off and sales reduced total third party assets by 36% in 2009, ahead of Plan, to £221 billion, including derivatives. Doing so crystallised losses, and further losses are likely to occur in coming years, albeit steadily declining. In the second half of 2009, Non-Core losses reduced 44% from the first half, providing encouragement about this trend. After some one-off gains, RBS Group had net attributable losses of £3.6 billion overall.

### Outlook

We see the outlook as cautiously encouraging for RBS and the economies we serve, although with clear risks. It looks as if loan impairments may have peaked in 2009 and our net interest margin, despite the continued squeeze on liability margins and higher liquidity costs, has now shown two quarters of improvement. Our progress in 2009 gives increased comfort in our ability to execute the restructuring challenges that remain.

Nonetheless, there are important areas of uncertainty today that should become clearer over the course of 2010. How these resolve will make the value case for RBS more certain.

- Firstly, much depends on the shape and pace of economic recovery and the way it feeds through to business activity, interest rates and credit impairments.

- Secondly, prospective regulatory change, about which more below, is likely to be significantly shaped in 2010 with the timing of implementation also clearer. This will affect customer activity and pricing as well as capital structure and shareholder returns.

- Thirdly, as the prospect of share sales becomes more realistic, RBS can transition from financial 'problem' to 'opportunity'. This will also help underpin the message to staff, shareholders and customers that RBS is being run commercially on behalf of all shareholders.

- Finally, while the riskiest part of the recovery plan is behind us, 2010 will be a year of hard slog, with limited visibility of our end value. Though Non-Core impairments and write-downs are expected to improve, they are likely to remain high and will once again continue to weigh against our strong Core operating profits. Our plans carry execution risk, and there is a further risk of sheer change fatigue. We must make sure that we stay on top of these risks.

### People

There are several necessary ingredients on the journey from failed institution to recovery story, and in the end to market leader. Perhaps the most crucial of these ingredients is people.

We needed to make comprehensive changes at the top and throughout our organisation, and we have implemented these changes decisively. On-going challenges from efficiency measures and business reduction are manifest. Finally, the sheer magnitude and intensity of institutional change, the pressure on morale of backward-looking commentary and customer uncertainty, the dents to pride and personal savings all take a toll. Our people face significant headwinds. Yet good, motivated, well-managed people are a vital necessity for achieving each of our three overriding goals.

RBS's recovery is a work in progress. Management's greatest task is human renewal and motivation. We have experienced damaging losses of skilled people and will continue to do so. But to date the overall signs are positive. The transition we need to make is ahead of schedule. Our people, new and old, are doing their jobs, and doing them well. Compliments are due to them for this.

### Regulation

Change is needed and is happening. As a large, diversified, systemic bank, and as a poster child for what needed reforming, RBS is both affected and constructively engaged. Three strands of change are discernible. The changes in process around the Basel rules on quality and quantity of capital, on risk weighting and on liquidity are generally well conceived and appropriate. However, their combination needs careful calibration to ensure the right balance between effectiveness and jeopardising economic growth and industry stability. Similarly, a measured timetable for implementation is vital. Done properly, we welcome the direction of change; it fits our own self-administered change and should be accommodated within our plans for the coming years.

The Basel changes are designed to reduce the probability of default in financial services. That leaves another critical strand of work around what happens in the case of default, even if much less likely to happen than before. We must make sure that our industry does not need the level of systemic and specific support called upon in 2008/09 in any future crisis. To enable banks to fail without a seizing-up of our financial system or a disastrous domino effect is a complex re-engineering challenge, especially when the scenario in question is not individual bank failure but systemic threat to many banks. I believe the answer lies in devising a 'Chapter 11' regime for banks, a clearer and swifter loss attribution mechanism beyond equity and a reduction in counterparty risk. Size and shape of themselves are a red herring, as surely all the facts of the crisis bear out. In any event, change in the area of crisis resolution is a must. But the consequences may be far-reaching and may have unforeseen side effects. We need thoughtful, purposeful dialogue leading to reform that works and we need to avoid rushed measures that distract.

Finally, the financial services industry must do more on the issue of cultural change: reconnection with customers and communities; restoration of management excellence; reform of pay structures that have become hard to defend. The financial services industry is integral to our economic system. As such its weakening comes at considerable peril to society's broader wealth creation and stability. But our more intangible licence to operate from society is at present rather battered. Our integral role requires that we restore it.

### Shareholders

RBS is being restructured and run to serve customers well, to be safe and stable and to restore sustainable shareholder value for all. It is our legal duty. It is our intention and desire. It is also the only way by which taxpayers will recover the support they have entrusted us with.

As we go through implementation of RBS's Strategic Plan, RBS's value will be determined by the improved sustainable earnings power of our Core business. The losses from the Non-Core wind-down will continue for a time, but should increasingly be seen as catered for in our financial structure. As confidence grows, we will be able to resolve the complexities in our capital structure and the Government will have opportunities to sell down its stake, thereby adding clarity and reducing the risk discount that is perceived today.

At the beginning of 2010 RBS is still a complex story. It will become simpler, clearer and more valuable as our strategy and actions show more results. We believe we can do this, to the benefit of all.

**Stephen Hester**
Group Chief Executive

# Our markets

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## The economic backdrop was difficult, despite a gradual improvement as the year wore on.

At the beginning of 2009, the global economy was in the grip of a recession described by the International Monetary Fund as "unprecedented in the post-World War II era". This prompted a coordinated policy response by central banks and governments around the world. Interest rates were cut sharply and some countries took the extra step of introducing quantitative easing – including the UK. Fiscal policy was also loosened.

These policies quickly had a calming effect on asset prices. Global equities stabilised in March 2009 and have since risen by c.65% (FTSE +45%, S&P 500 +55%). Similarly, house prices started to rise in the spring, and are presently about 5% and 10% above their troughs in the US and UK, respectively.

Commercial property valuations took longer to recover. Having fallen by 44% over the previous two years, UK valuations started to rise again in August 2009, and have since rebounded by 9%, according to International Property Databank (IPD). However, valuations were still falling in Ireland and the US as at Q4.

Policy loosening also led to an improvement in economic performance, with the rate of decline in gross domestic product (GDP) easing, then reversing in our core economies as 2009 progressed. The US emerged from technical recession in Q3 2009, and the UK in Q4 2009. Even so, the whole year growth outturns confirm that 2009 was, on balance, a challenging year for our core markets:

- UK GDP shrank by 4.8% – the largest decline on record, and a much worse outturn than economists were expecting when we reported our 2008 Results (-2.6%, according to Consensus Economics). The recession hurt many of our customers, with unemployment rising and corporate profitability falling.
- In Ireland, the recession was even more pronounced. GDP fell by an estimated 7.3%, according to Consensus Economics. That's mainly because property and construction are more prominent in the Irish economy, and suffered even sharper corrections.
- The decline in US GDP was mild by comparison (-2.4%), but that is still a deep recession by US historic standards. The unemployment rate more than doubled, giving rise to the weakest labour market conditions for almost 30 years.

### The economic outlook

The nascent recovery has more to do with policy stimulus than a reduction in the global imbalances that helped cause the recession. Savings rates have risen in the US and UK, but households, government and – to a lesser extent – companies still have a way to go to get debt down to more comfortable levels.

As a result, most economists expect that the recovery in our core markets will be sluggish by historic standards. This suggests that inflation will remain low and that interest rates will be raised only gradually. Emerging markets, especially Asia, will likely outperform as they are less encumbered by balance sheet strains.

N.B. All data are from Thomson Datastream, unless otherwise indicated.

# Q&As on progress

## When we speak to our investors, some questions are asked more often than others. Below we provide a selection of those frequently asked questions – and answers.

### What is your dividend policy going forward?
In the light of our 2009 results, it would not be appropriate to pay any dividend on ordinary shares this year, nor, under the terms of the European Commission's approval of the state aid we have received, will we be able to do so for a further two years. The Board is mindful that dividends form an extremely important part of shareholder return and income. It is our intention over time to resume the payment of a dividend as soon as it is prudent to do so, taking account of the Group's capital position, retained earnings and prospects, as well as of the enhanced dividend rights attached to the B Shares held by the UK Government. There will be dividend payments on some preference shares this year but, thereafter, they will be subject to the same two-year hiatus required by the EC.

### What is the timetable for the EU-required divestments?
We have four years to make all our disposals and will determine the timing of each with reference to the following criteria: getting the best value for shareholders; minimising the disruption to our customers and employees; market conditions; and execution risk.

We will look to conclude some of the disposals quickly. For example, RBS Sempra Commodities agreed to sell its Metals, Oil and European Energy business lines to J.P. Morgan for $1.7 billion, as announced on 16 February 2010. Others will take longer. We are making good progress on the divestment of RBS branches in England and Wales, and NatWest branches in Scotland; we have a target to agree a buyer in 2010, though the complex separation issues mean we don't expect to complete until 2011. We are considering our options on the RBS Insurance divestment, including an IPO in the second half of 2012.

### Where are you in the impairment cycle?
We believe impairment losses are likely to have peaked in 2009, having increased to £13,899 million from £7,432 million in 2008. There are complementary indications that the pace of downwards credit rating migration for corporates is slowing. Nonetheless, the financial circumstances of many consumers and businesses remain fragile, and rising refinancing costs, whether as a result of monetary tightening or of increased regulatory capital requirements, could expose some customers to further difficulty.

### What has been happening to margins, and why?
Our net interest margin has now shown two quarters of improvement, despite the continued squeeze on liability margins and higher liquidity costs. In 2009 overall, net interest income declined by 14%, as the Group net interest margin narrowed by 32 basis points to 1.76%. Deposit margins remain under pressure, with strong competition particularly for longer term deposits and rates on many products already at floors in the current low interest rate environment. However, asset margins were gradually rebuilt over the course of the year, leading to a recovery beginning in overall net interest margins in the Core retail and commercial banking Divisions in the second half.

### How much of a problem has UK political interference been?
The benefits to RBS of political involvement, in the widest possible sense, are significantly larger than the costs. Put simply, if RBS hadn't received government support, it wouldn't be here today. It is in every shareholder's interest that RBS is run commercially and, on every item of strategic and operational substance, that has been the case.

### To what extent has the loss of high-performing employees affected performance?
The loss of high-performing employees has been damaging but, to date, not destructive. Each year, we rate our employees on a scale of one to five, where four and five are the highest ratings. The bad news is that the percentage of people ranked four or five that left us in the second half of 2009 was roughly double the prevailing rate over the period 2005-07. The better news is that this number is rising from a relatively low base. We have also been able to hire talented people to help in the restructuring challenges ahead for the company.

The ability to motivate and retain our best employees is critical to the future success of RBS so, first and foremost, we need to make sure the percentage of highly-rated people leaving us doesn't rise any further. Ideally, we need to reverse that trend, though this will partly depend on our ability to convince staff and recruits that RBS is being run commercially.

### How would a UK sovereign credit downgrade affect the Group?
We carry out contingency exercises on a range of possible outcomes. It is true that the RBS Group's credit rating is, to a degree, supported by the UK sovereign rating, so a downgrade may have repercussions for the rating of RBS. We diligently employ liquidity oversight and contingency planning designed to mitigate the impact on the Group from a number of liquidity stresses, including credit rating downgrades, irrespective of the sovereign rating of the UK.

# Board of directors and secretary






## Chairman

**Philip Hampton** (age 56)
**N (Chairman)**
Appointed to the Board on 19 January 2009 and as Chairman on 3 February 2009. Philip Hampton was previously chairman of J Sainsbury plc and group finance director of Lloyds TSB Group plc, BT Group plc, BG Group plc, British Gas and British Steel plc, an executive director of Lazards and a non-executive director of RMC Group plc. He is also former chairman of UK Financial Investments Limited, the company established to manage the UK Government's shareholding in banks subscribing to its recapitalisation fund, and is a non-executive director of Belgacom SA. Philip joined the Board of Anglo American plc as a non-executive director on 9 November 2009.

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| 4 | 5 | 6 | 10 | 11 | 12 |

**Key to pictures**
1. Philip Hampton, Chairman
2. Stephen Hester, Group Chief Executive
3. Bruce Van Saun, Group Finance Director
4. Colin Buchan
5. Sandy Crombie
6. Archie Hunter
7. Joe MacHale
8. Penny Hughes
9. John McFarlane
10. Arthur "Art" Ryan
11. Philip Scott
12. Miller McLean

**Abbreviations**
A member of the Group Audit Committee
N member of the Nominations Committee
R member of the Remuneration Committee
Ri member of the Board Risk Committee
* independent non-executive director

## Executive directors

**Stephen Hester** (age 49)
**Group Chief Executive**
Appointed to the Board on 1 October 2008 and as Group Chief Executive on 21 November 2008, Stephen Hester was chief executive of The British Land Company PLC. He was previously chief operating officer of Abbey National plc and prior to that he held positions with Credit Suisse First Boston including Chief Financial Officer, Head of Fixed Income and co-Head of European Investment Banking. Between February and October 2008, he was non-executive deputy chairman of Northern Rock plc. He is also a trustee of The Foundation and Friends of the Royal Botanical Gardens, Kew.

**Gordon Pell** (age 60) (not pictured)
FCIBS, FCIB
**Deputy Group Chief Executive**
Appointed to the Board in March 2000, Gordon Pell was formerly group director of Lloyds TSB UK Retail Banking before joining National Westminster Bank Plc as a director in February 2000 and then becoming Chief Executive, Retail Banking. He is also a director of Race for Opportunity and a member of the FSA Practitioner Panel. He was appointed chairman of the Business Commission on Racial Equality in the Workplace in July 2006 and deputy chairman of the Board of the British Bankers Association in September 2007. He will retire from the Board on 31 March 2010.

**Bruce Van Saun** (age 52)
**Group Finance Director**
Appointed to the Board on 1 October 2009, Bruce Van Saun has more than 25 years financial services experience. From 1997 to 2008 he held a number of senior positions with Bank of New York and later Bank of New York Mellon, most recently as vice chairman and chief financial officer and before that he was responsible for the Asset Management and Market Related businesses. Prior to that, he held senior positions with Deutsche Bank, Wasserstein Perella Group and Kidder Peabody & Co. He has served on several corporate boards as a non-executive director and has been active in numerous community organisations.

## Group General Counsel and Group Secretary

**Miller McLean** (age 60)
FCIBS, FIB
Miller McLean was appointed Group Secretary in August 1994. He is a trustee of the Industry and Parliament Trust, non-executive chairman of The Whitehall and Industry Group, and immediate past president of the Chartered Institute of Bankers in Scotland. He will retire from the Group on 30 April 2010.






## Non-executive directors

**Colin Buchan*** (age 55)
**A, N, R (Chairman), Ri**
Appointed to the Board in June 2002, Colin Buchan was educated in South Africa and spent the early part of his career in South Africa and the Far East. He has considerable international investment banking experience, as well as experience in very large risk management in the equities business. He was formerly a member of the group management board of UBS AG and head of equities of UBS Warburg, and was the former chairman of UBS Securities Canada Inc. He is chairman of Standard Life Investments Limited and a director of Standard Life plc and Black Rock World Mining Trust Plc. Colin is a fellow of the Chartered Institute of Bankers of Scotland.

**Sandy Crombie*** (age 61)
**Senior Independent Director**
**N, R, Ri**
Appointed to the Board in June 2009, Sandy Crombie retired from his position as Group Chief Executive of Standard Life Plc on 31 December 2009. He has previously served as a director of the Association of British Insurers and a member of the Chancellor of the Exchequer's High Level Group. In 2007, he was the Prince of Wales' Ambassador for Corporate Social Responsibility in Scotland. He currently serves as Chairman of the Edinburgh UNESCO City of Literature Trust, as Vice Chairman of the Royal Scottish Academy of Music and Drama, and President of The Cockburn Association.

**Penny Hughes*** (age 50)
**N, R**
Penny Hughes joined the Board on 1 January 2010 and is currently a non-executive director of Home Retail Group plc and Cable & Wireless plc. Penny joined the board of Wm Morrisons Supermarkets plc on 1 January 2010. She is a former non-executive director of Gap Inc, Vodafone PLC and Reuters PLC. Penny chairs the Remuneration Committee of Home Retail Group. Penny was a director and chairman of the Remuneration Committee of Skandinaviska Enskilda Banken AB until she stepped down on 20 October 2009. Penny spent the majority of her executive career at Coca-Cola where she held a number of leadership positions. In 1992, she was appointed as President, Coca-Cola Great Britain and Ireland. She is also a Trustee of the British Museum and President of the Advertising Association.

**Archie Hunter*** (age 66)
**A (Chairman), N, Ri**
Appointed to the Board in September 2004, Archie Hunter is a chartered accountant. He was Scottish senior partner of KPMG between 1992 and 1999 and president of The Institute of Chartered Accountants of Scotland in 1997/98. He has extensive professional experience in the UK and North and South America. He is currently chairman of Macfarlane Group plc, a director of Edinburgh US Tracker Trust plc and a governor of the Beatson Institute for Cancer Research.

**Joe MacHale*** (age 58)
**A, N, Ri**
Appointed to the Board in September 2004, Joe MacHale is currently a non-executive director and chairman of the remuneration committee of Brit Insurance Holdings plc, and a trustee and treasurer of MacMillan Cancer Support. He held a number of senior executive positions with J P Morgan between 1979 and 2001 and was latterly chief executive of J P Morgan Europe, Middle East and Africa Region. He is a fellow of the Institute of Chartered Accountants and the Chairman of Prytania Holdings LLP.

**John McFarlane*** (age 62)
**N, R**
Appointed to the Board on 1 October 2008, John McFarlane is former chief executive officer of Australia and New Zealand Banking Group Limited. Previously he was a group executive director of Standard Chartered and was head of Citicorp/Citibank in the UK and Ireland. He is currently a non-executive director of Westfield Holdings Limited and a director of Old Oak Holdings Limited. He is a former president of the International Monetary Conference and a former chairman of the Australian Bankers Association. He has previously served as a director of the London Stock Exchange and a member of the Auditing Practices Board.

**Arthur 'Art' Ryan*** (age 67)
**N**
Appointed to the Board on 1 October 2008, Art Ryan is the former chairman, chief executive officer and president of Prudential Financial Inc. Previously he held senior positions with Chase Manhattan Bank NA. He is currently a non-executive director of Regeneron Pharmaceuticals Inc. and an active member of numerous community boards. He was a founding member of the Financial Services Forum.

**Philip Scott*** (age 55)
**A, N, Ri (Chairman)**
Appointed to the Board on 1 November 2009, Philip Scott has wide-ranging experience of financial services and risk management, including previous responsibility for Aviva's continental European and international life and long-term savings businesses. He has held a number of senior executive positions during his career at Aviva, including his role as Group Finance Director until January 2010. Philip is also an experienced non-executive director and is currently on the board of Diageo plc.

# Executive Committee










The Executive Committee provides executive input to the Group Board, and monitors and reports to the Group Board on all operational and day to day activities in relation to the Group's businesses.

It is responsible for managing Group wide issues and those operational issues material to the broader Group.

| | | |
|---|---|---|
| 1 | 2 | 3 |
| 4 | 5 | 6 |
| 7 | 8 | 9 |
| 10 | | |

**Key to pictures**

1. Stephen Hester, Group Chief Executive
2. Bruce Van Saun, Group Finance Director
3. John Hourican, Chief Executive, Global Banking & Markets
4. Brian Hartzer, Chief Executive, UK Retail, Wealth and Ulster Bank
5. Chris Sullivan, Chief Executive, UK Corporate
6. Ellen Alemany, Chief Executive, Citizens and Head of Americas
7. Ron Teerlink, Chief Administrative Officer
8. Nathan Bostock, Head of Restructuring & Risk
9. Paul Geddes, Chief Executive, RBS Insurance
10. Alan Dickinson, Chairman, UK Corporate

## Executive Committee

Stephen Hester, Group Chief Executive
Gordon Pell, Deputy Group Chief Executive
Bruce Van Saun, Group Finance Director

For biographies **see pages 8-9**

**Brian Hartzer** (age 43)
Chief Executive, UK Retail, Wealth and Ulster Bank
Brian Hartzer joined The RBS Group in 2009. A Princeton graduate, he is a joint US and Australian citizen. Brian joined ANZ in 1999 and ran its Consumer Finance business (credit cards, merchant services and personal loans) until 2004. He then took over the full Retail bank portfolio (including SME and Wealth), and in 2008 added the role of Chief Executive Australia for all ANZ business lines, as well as Global Segment Lead for Retail. Before joining ANZ, Brian was a financial services consultant in New York, San Francisco and Melbourne for 10 years.

**Chris Sullivan** (age 52)
Chief Executive, UK Corporate
Chris Sullivan was appointed Chief Executive of the UK Corporate Banking Division and the GTS Division in August 2009. His previous role was Chief Executive of RBS Insurance, the second largest general insurance provider in the UK. Prior to this, Chris was Chief Executive of Retail and Deputy Chief Executive of Retail Markets. Chris is Vice Chairman of the Association of British Insurers, Chairman of the General Insurance Council and a member of the CBI President's Committee. He spent five years as Chief Executive of Lombard Asset Finance where he developed the business to a leadership position in the UK and Europe. Chris Sullivan earned his Fellowship of Chartered Institute of Bankers Scotland for his services to Scottish Banking.

**John Hourican** (age 39)
Chief Executive, Global Banking & Markets
Prior to his recent appointment as Chief Executive, Global Banking & Markets, John Hourican was the Chief Financial Officer and Board Member responsible for Group Finance after his appointment to the ABN AMRO Managing Board in November 2007. Before his Managing Board appointment, John was Head of Leveraged Finance, Global Banking & Markets. In this role, John was responsible for leading RBS's market leading Leveraged Finance and High Yield business in Europe and Asia Pacific. John joined RBS in 1997 and held a variety of senior positions within RBS's wholesale banking Division, notably on the Division's board as Finance Director and more recently as Chief Operating Officer where he was responsible for managing 3,000 people globally.

**Ellen Alemany** (age 54)
Chief Executive, Citizens and Head of Americas
Ellen Alemany joined The RBS Group in June 2007 from Citigroup, where she was CEO for Global Transaction Services. She was also a member of the Citigroup Operating Committee, Corporate and Investment Planning Group, and Global Banking Operating Committee. Ellen began her banking career at Chase Manhattan Bank in 1977, working in Operations, Structured Trade, and the Media and Electronics Department as a Senior Lender. In October 2009, she was listed 17th on US Banker's list of the 25 Most Powerful Women in Banking.

**Paul Geddes** (age 40)
Chief Executive, RBS Insurance
Paul Geddes graduated from Oxford in 1990, where he read Politics, Philosophy and Economics. His career started at Procter & Gamble, in the UK and Europe. He entered retailing in 1997, holding senior roles in Kingfisher and GUS Groups before joining the RBS Group in 2004 as Managing Director, Products and Marketing, Retail Banking. He was appointed CEO, Retail Banking in December 2006 and CEO, UK Retail in February 2009, before taking overall responsibility for some of the UK's best-known insurance brands, including Direct Line, Churchill, Privilege and Green Flag as CEO, RBS Insurance in August 2009. Paul is a Fellow of the Chartered Institute of Bankers in Scotland and a Trustee of the Dewar Arts Awards.

**Ron Teerlink** (age 49)
Chief Administrative Officer
In April 2008, Ron Teerlink joined The RBS Group as Chief Executive of Business Services, becoming the Group Chief Administrative Officer in February 2009. At the same time he was re-appointed to the Managing Board of ABN AMRO to oversee the integration programme. Ron started his career with ABN Bank in 1986 as an IT/Systems analyst and held various functional positions before becoming Chief Operating Officer of the Wholesale Clients Business in 2002. He was appointed Chief Executive Officer of Group Shared Services in 2004 and joined ABN AMRO's Managing Board in January 2006, where he was responsible for Services and Market Infrastructure. Ron holds a Masters degree in Economics from Amsterdam's Vrije Universiteit.

**Nathan Bostock** (age 49)
Head of Restructuring & Risk
Nathan Bostock joined The RBS Group in June 2009 as Head of Restructuring and Risk with responsibility for the newly formed Non-Core Division & APS, the Global Restructuring Group and the control functions of Group Legal & Secretariat and Risk Management. Before joining RBS, Nathan spent eight years with Abbey National plc in several roles and was latterly the CFO and main Board Director responsible for Products & Marketing, HR, Insurance and Cards. Before joining Abbey in 2001, Nathan spent ten years with RBS in a number of roles, including Chief Operating Officer of Treasury and Capital Markets and Group Risk Director. A Chartered Accountant, Nathan worked with Coopers & Lybrand, before starting his career in banking. He spent seven years in Chase Manhattan Bank in a variety of areas and functions. He also holds a BSc (Hons) in Mathematics.

**Alan Dickinson** (age 59)
Chairman, UK Corporate
Alan Dickinson became Chairman, Corporate Banking on 1 August 2009 having been Chief Executive, Corporate Banking from March, following the Group's restructure. The business looks after the Group's SME and Corporate businesses in the UK and its Global Transaction Services Division. Alan is a member of the Bank's Group Executive Committee. He joined The Royal Bank of Scotland Group in 1973. His career has covered working in the front line of Retail, Corporate and SME banking as well as in 1992 being Director of Credit covering the Bank's personal, business, commercial and corporate customers in the UK.

## Management Committee

The Management Committee, comprising our major business and functional leaders, meets three to four times annually as a vehicle for strategy and business performance review.

It comprises members of the Executive Committee plus:

Richard Hemsley, Chief Operating Officer, Business Services
Jennifer Hill, Head of Strategy and Corporate Finance
Marco Mazzucchelli, Deputy CEO of Global Banking & Markets
Cormac McCarthy, Chief Executive, Ulster Bank
John McCormick, CEO Asia
Andrew McLaughlin, Head of Communications and Group Chief Economist
Miller McLean, Group General Counsel and Group Secretary
Peter Neilsen, Global Head of Markets
Neil Roden, Head of Human Resources
Brian Stevenson, Chief Executive, Global Transaction Services

Our strategy is simple and its concepts are well tested in this and other industries. Its implementation, however, constitutes one of the largest and most far reaching company restructurings yet seen globally.

We aim to remake RBS as one of the world's most admired, valuable and stable universal banks. Driven by market-leading businesses in large customer-driven markets, RBS targets a 15%+ sustainable return on equity from a stable AA category risk profile and balance sheet.

We are concentrating RBS around the competitive strengths we enjoy in each of our Core businesses. We are focusing on what we are good at and making it better. At the same time we are reducing our balance sheet, risk and funding exposures through massive restructuring and are reducing both scale and scope in areas where we are not naturally strong. We are re-engineering cost structures and have embarked on overdue business investment. Management and cultural change has also been comprehensive.

**Andrew MacInnes**
RBS customer for 33 years

For years Andrew has wanted to ride his motorbike across South Africa. This time last year he came to see us and we helped him put a savings plan together. Soon he'll be on his way for real.

# Roadmap to recovery

| Strategy and business objectives | How are we going to do this? | Targets by 2013 |
|---|---|---|
| RBS to generate a sustainable 15%+ return on equity, powered by market-leading businesses in large customer-driven markets | **Market-leading franchises**<br>Target and measure market positions and customer satisfaction in all core businesses | All our main Core businesses have leadership positions |
| | **Income growth**<br>Focus on businesses capable of delivering sustainable growth and achieve market-level growth in each | Sustainable 5-10% organic growth in "normal" times |
| | **Cost control**<br>Deliver more than £2.5 billion efficiency savings by 2011 through the Group's new cost programme, whilst making essential investments in our businesses. Achieve a cost:income ratio that places RBS among the most efficient of its global peers | Group cost:income ratio, net of claims, <50% |
| | **Rigorous capital and cost allocation**<br>Accurately deploy the Group's capital and allocate appropriate costs to focus the Divisions on returns, as well as on profit growth | Implemented in 2009 |
| RBS to deliver its strategy from a stable AA category risk profile and balance sheet | **Reduced balance sheet scale**<br>De-risk and shrink the Group's balance sheet, including careful control of future asset growth | Achieve Non-Core run-off of £258 billion funded assets (2008)<br>Additional reduction of £85 billion derivatives exposure is also targeted |
| | **Funding programme**<br>Plans to limit over-reliance on wholesale markets to meet the Group's funding requirements, while building up an appropriate liquidity reserve | Group loan:deposit ratio of c.100%<br>Wholesale funding reliance <£150 billion<br>Liquidity reserves of c.£150 billion |
| | **Stable and robust capital support**<br>Focus on implementing state of the art risk controls, run-off of excess risk concentrations and maintenance of strong equity capital | Core Tier 1 capital ratio >8% |
| The chosen business mix to produce an attractive blend of profitability, stability and sustainable growth | **Focussed on retail and commercial banking**<br>Activity focussed on UK, US and Ireland and supported by significant business investment plans | Two-thirds of Group profit and revenue to come from retail and commercial banking |
| | **Refocus on the core strength of GBM**<br>GBM's strategic plan is the most radical in The RBS Group, and will refocus the business on its core franchises, with disciplined deployment of capital to support its targeted client base | GBM to account for approximately one-third of Group profit and revenue |
| | **Exit Non-Core business lines**<br>Expeditious run-off or sale of businesses and asset portfolios while maximising the value obtained for the Group | Run-down of the Non-Core Division |
| RBS management hallmarks to include an open, investor-friendly approach, discipline and proven execution effectiveness, strong risk management and central focus on the customer | **Publish targets for risk/return balance**<br>Demonstrate execution effectiveness by setting clear performance targets for risk and return, and give regular updates on progress against them | All implemented in 2009 |
| | **Improve levels of disclosure**<br>Rebuild confidence and trust with investors by combining clear performance targets with improved disclosure | |
| | **Set customer franchise targets for every business**<br>Maintain excellent customer service as a core objective of the Group, now defined with reference to a series of targets | |
| | **Management change**<br>At the centre of its efforts to rebuild standalone strength, RBS has completely restructured its Board and its senior management team | |
| | **Strong risk management**<br>Introduce a new set of management disciplines to ensure that the RBS of tomorrow will be fundamentally different from the RBS of yesterday – notably in risk management | |

**Our progress so far**

Each of the Group's Core businesses maintained or enhanced its market position in 2009.
In the UK, RBS maintained its market leading franchises in retail (No.2), small business (No.1) and corporate and commercial banking (No.1).

2009 was not a normal year. Volatility and unprecedented, unconventional monetary policy interventions produced strong income growth in some businesses, while the recession depressed it in others. All the Core business franchises have shown their resilience through difficult economic conditions, and are well positioned as the major economies in which they operate start to recover.

Good progress has been made in the cost control initiatives across the Group, including major technology and back office restructuring.
By the end of 2009 £1.3 billion of costs had been eliminated from RBS, notably in the areas of IT and property infrastructure, and through improved employee efficiency programmes.
The Core bank cost:income ratio, net of claims, improved from 66.2% in 2008 to 53.5% in 2009.

Risk weighted assets, return on equity and fully allocated cost:income ratio targets set at Divisional as well as Group level.

During 2009 total assets were cut by £696 billion with funded assets declining by £143 billion.
Non-Core reduced its total third party assets, excluding derivatives, to £201 billion.
Tier 1 leverage ratio declined from 21.2x in 2008 to 17.0x in 2009.

The Group's loan:deposit ratio, net of provisions, improved to 135% in 2009 from 151% in 2008. The Core loan:deposit ratio was 104% compared to 118% in 2008.
Wholesale unsecured funding of less than one year duration has declined to £250 billion from £343 billion in 2008.
Liquidity reserves increased by £81 billion to £171 billion during 2009.

At the end of 2009 the Group's Core Tier 1 ratio was 11%.
The Asset Protection Scheme, to which RBS acceded in December 2009, underpins our capital strength by providing protection in the event of severe market stress.

In the UK, the number of Retail current accounts increased by more than 3% on the year and the number of mortgage accounts by 10%.
UK Corporate Banking opened 100,000 start-up accounts in the nine months to September 2009.
Ulster Bank held SME and corporate customer numbers stable over the last year and increased consumer accounts by 3%, compared with December 2008.
US Retail added 58,000 personal checking accounts over the course of the year.

GBM's total third party assets, excluding derivatives, were down 17%, or 13% at constant exchange rates, compared with 31 December 2008, driven by a 43% reduction in loans and advances as customers took advantage of favourable capital market conditions to raise alternative forms of finance to bank debt.
This reduction was partially offset by an increase in liquid assets.
GBM's risk-weighted assets decreased 19%, or 15% at constant exchange rates, reflecting the fall in third party assets and the Group's continued focus on reducing its risk profile and balance sheet usage.

Non-Core Division reduced its portfolio of assets by £122 billion (36%) in 2009.
The Group sold its 50% interest in the online Spanish motor insurer Linea Directa in 2009, as well as its 5% stake in Bank of China.
RBS also agreed to sell its retail and commercial banking businesses in Indonesia, Hong Kong, Singapore and Taiwan, and GBM/GTS operations in the Philippines, Taiwan and Vietnam. It remains committed to the sale of certain other parts of its Asian franchise.
The Investment Strategies business of RBS Asset Management was sold to Aberdeen Asset Management in January 2010.
The non-US operations of RBS Sempra Commodities, the Group's joint venture business with California-based Sempra Energy, were sold to J.P. Morgan in February 2010.
Sale processes are proceeding in respect of the Global Merchant Services business of GTS and RBS branches in England and Wales, and NatWest branches in Scotland.

RBS has published a series of financial targets, for the Group as a whole and for individual Divisions (see page 18).
We are delivering our Strategic Plan ahead of schedule on both value creation (improvement of Core Bank) and risk reduction (Non-Core run-off).

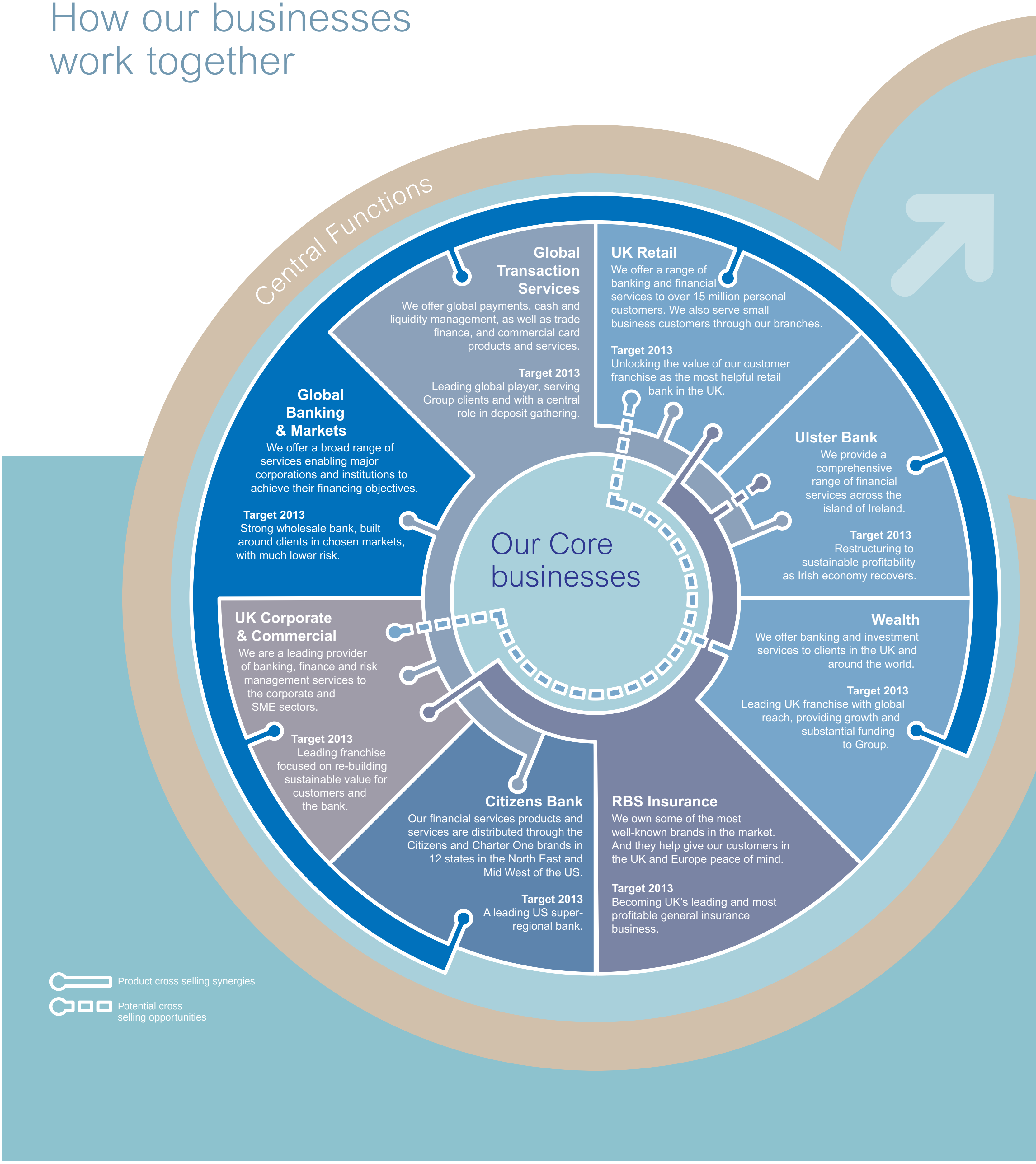
RBS set a new benchmark for disclosure among UK banks, in terms of both level and frequency (e.g. only UK bank to do full quarterly reporting).

Each Division is being monitored against a variety of market position metrics and customer satisfaction scores.
Good progress was made last year. For example, our share of the UK mortgage lending market (gross) increased to 12% from 7% in 2008. Also, Business & Commercial Banking and Corporate & Institutional Banking both maintained their market-leading customer satisfaction scores.
Progress on intra-Group connectivity/cross sales is also assessed. For example, 500,000 insurance policies were sold via the branch networks of RBS and NatWest.

The Group Board has been significantly changed with a new Chairman, Group Chief Executive, Group Finance Director, Senior Independent Director and several new members.
The new Executive Committee was established in 2009 comprising the chief executives of the customer-facing Divisions of the Group, as well as the Chief Financial Officer, Head of Restructuring and Risk, and the Chief Administration Officer.

The Group's new Board Risk Committee will regularly analyse the risk profile of the Group, identify any longer-term threats and make recommendations to the Board as appropriate. See page 19 for an overview of key risk developments in 2009, and the steps we took to mitigate them.

# How our businesses work together



## Non-Core

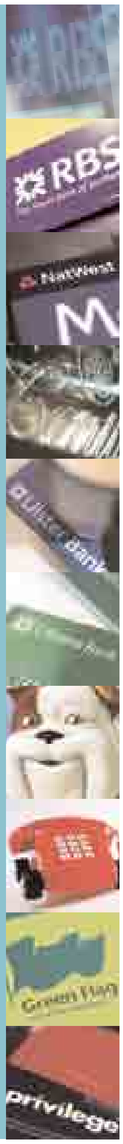
Our Non-Core Division manages assets that are no longer core to our strategy and the continuing operations of RBS, and which we plan to sell or to run down.

**Target 2013**
A safer, sustainably profitable bank.

When we drew-up our strategic plan, one of the tests we set was that each business is connected to the Group in ways that mean the whole is greater than the sum of the parts.

# Group connectivity, cross-sell and complementarity

- **GTS/Wealth** provide a strong source of funding to complement our retail banking franchises. The businesses increased their deposit base in 2009 and contributed almost £1 in every £4 of deposits held by customers, highlighting the strength and depth of the customer relationships that exist in the Divisions. The low loan to deposit ratios (21% GTS and 38% Wealth) in each business help balance the funding profile of the Group.
- We offer Structured Retail Products to retail clients across Europe and Asia through our GBM business. RBS listed products can be traded like a share through a stockbroker or IFA. **GBM** works with our internal sales network to distribute these products through **RBS Private Banking**, **NatWest Private Banking**, **Coutts**, **RBS Coutts** and **Ulster Bank**.
- **GBM** helps Corporate Banking Division clients to raise finance from debt and equity markets. We participated in over 80% of equity issues by UK corporates in 2009 and led more UK corporate debt issues than any other bank.
- Our **Business Services Division** is a centrally-run function that allows our customer-facing Divisions to reduce costs by exploiting economies of scale.
- **GTS/GBM** – We have established Global Network Banking (GNB) to position RBS as the network bank of choice for our corporate clients. GNB offers product connectivity and a seamless service to clients across our international network. It does this by providing expert, local relationship management across a number of countries in Europe, the Middle East, Asia-Pacific and the Americas regions to our international clients. In the UK, we have established an international network advisory team to enhance the global capability of our UK corporate clients.
- **GBM** helps agricultural customers hedge their Common Agricultural Policy payments from the EU. The payments are set in euros and UK farmers can be exposed to fluctuations in exchange rates. GBM offers services which give farmers certainty over the payment they will receive.
- **Insurance** – In 2009, 500,000 insurance policies were sold via the branch networks of RBS and NatWest.
- Our **Retail Division** hosts services for business banking in branches.



# Clearly defined financial targets

Watch or listen to
Bruce Van Saun at www.rbs.com/annualreport2009

| Key performance indicator | Worst point | 2009 Actuals | Why? | 2013 Target |
|---|---|---|---|---|
| Core Tier 1 capital ratio | 4% (1) | **11.0%** | We need a high capital ratio to meet society's expectations of a safer banking system. | **>8%** |
| Loan:deposit ratio (net of provisions) | 154% (2) | **135%** | We want to put our balance sheet on a more secure footing, where loans are near fully funded by deposits. | **c100%** |
| Wholesale funding reliance (3) | £343bn (4) | **£250bn** | We want to reduce this vulnerability, so that wholesale funding is predominantly used for non-loan assets. | **<£150bn** |
| Liquidity reserves (5) | £90bn (4) | **£171bn** | We want to rebuild our liquidity buffers, to guard against unexpected funding difficulties. | **c£150bn** |
| Leverage ratio (6) | 28.7x (7) | **17.0x** | We target a conservative leverage ratio, at a level consistent with other leading banks. | **<20x** |
| Return on equity (RoE) | (31%) (8) | **Core 13%** (9) | We need to cover our cost of capital in the long-run, and justify our shareholders' support. | **Core >15%** (9) |
| Cost:income ratio net of claims | 97% (10) | **Core 53%** | We cannot achieve a 15% RoE without cost control and asset margin re-pricing. | **Core <50%** |

Notes:

(1) As at 1 January 2008.

(2) As at October 2008.

(3) Amount of unsecured wholesale funding under 1 year. 2009 includes £109 billion of bank deposits and £141 billion of other wholesale funding. 2013 target is for <£65 billion of bank deposits, <£85 billion of other wholesale funding.

(4) As at December 2008.

(5) Eligible assets held for contingent liquidity purposes including cash, government issued securities and other securities eligible with central banks.

(6) Funded tangible assets divided by Tier 1 capital.

(7) As at June 2008.

(8) Group return on tangible equity for 2008.

(9) Indicative Core attributable profit taxed at 28% on attributable core spot tangible equity (circa 70% of Group tangible equity based on RWAs).

(10) 2008.

## UK Retail

| | Return on equity (%) | Cost:income (%) | Loan:deposit (%) |
|---|---|---|---|
| **2009 actual** | **4** | **60** | **115** |
| 2011 | >1 | <60 | <120 |
| 2013 | >15 | c.50 | <105 |

## UK Corporate

| | Return on equity (%) | Cost:income (%) | Loan:deposit (%) |
|---|---|---|---|
| **2009 actual** | **10** | **43** | **126** |
| 2011 | >5 | <45 | <135 |
| 2013 | >15 | <35 | <130 |

## Wealth

| | Cost:income (%) | Loan:deposit (%) |
|---|---|---|
| **2009 actual** | **59** | **38** |
| 2011 | <60 | <35 |
| 2013 | <50 | <30 |

## GBM

| | Return on equity (%) | Cost: income (%) |
|---|---|---|
| **2009 actual** | **31** | **42** |
| 2011 | c.15 | <65 |
| 2013 | 15-20 | c.55 |

## GTS

| | Cost:income (%) | Loan:deposit (%) |
|---|---|---|
| **2009 actual** | **59** | **21** |
| 2011 | <60 | <25 |
| 2013 | <50 | <20 |

## Ulster Bank

| | Return on equity (%) | Cost:income (%) | Loan:deposit (%) |
|---|---|---|---|
| **2009 actual** | **(13)** | **73** | **177** |
| 2011 | >0 | <75 | <175 |
| 2013 | >15 | c.50 | <150 |

## US Retail and Commercial

| | Return on equity (%) | Cost:income (%) | Loan:deposit (%) |
|---|---|---|---|
| **2009 actual** | **(2)** | **78** | **80** |
| 2011 | c.10 | <70 | <90 |
| 2013 | >15 | <55 | <90 |

## Insurance

| | Return on equity (%) | Cost:income less claims (%) |
|---|---|---|
| **2009 actual** | **2** | **92** |
| 2011 | >15 | <70 |
| 2013 | >20 | <60 |

# Key risks and uncertainties

| Risk Type | Definition | Features | Key developments in 2009 | Risk mitigation |
|---|---|---|---|---|
| **Credit risk** (including country and political risks) | The risk arising from the possibility that the Group will incur losses owing to the failure of customers to meet their financial obligations to the Group. | • Loss characteristics vary materially across portfolios<br>• Significant correlation between losses and the macroeconomic environment<br>• Concentration risk – potential for large material losses | Asset quality deteriorated in all portfolios in 2009, with higher impairments impacting our earnings and weaker assets incurring increased capital requirements. In both cases, the impact was greatest in corporate portfolios and the rate of decline was highest in the first half of the year. | We have increased investment in specialised workout and collection functions. Enhancements to various elements of our Credit Risk framework, which has been embedded into key business processes, will ensure that the size and shape of the Group's portfolio is aligned to its strategic targets. |
| **Funding and liquidity risk** | The risk of being unable to meet obligations as they fall due. | • Potential to disrupt the business model and stop normal functions of the Group<br>• Significantly correlated with credit risk losses | Reopening of credit markets, increased market focus on building up liquidity reserves, and market-wide liquidity provided to the banking system through central bank quantitative easing. | We have built up a significant liquidity reserve (£171 billion), increased average maturity of wholesale funding, and reduced our customer funding gap. |
| **Market risk** | The risk that the value of an asset or liability may change as a result of a change in market risk factors. | • Potential for large material losses<br>• Potential for losses due to stress events | Due to the extended period of market volatility since August 2007, the level of modelled market risk has increased, despite a reduction in trading book exposure. | We have reduced trading book exposure with sales, reclassification of assets to the non-trading book and write-downs. |
| **Insurance risk** | The risk of financial loss through fluctuations in the timing, frequency and/or severity of insured events, relative to the expectations at the time of underwriting. | • Frequent small losses<br>• Infrequent material losses | Increasing losses due to bodily injury claims in the motor insurance business affecting both RBS Insurance and the UK motor insurance industry as a whole. | We have taken various steps to address the current and future impact of bodily injury trends, including: rating and pricing changes; sales optimisation; and claims management. |
| **Operational risk** | The risk of financial, customer or reputational loss resulting from: fraud; human error; ineffective, or inadequately designed, processes or systems; improper behaviour; or external events. | • Frequent small losses<br>• Infrequent material losses | Unprecedented levels of structural change within the Group, the difficult economic environment and the rising level of external threats (e.g. fraud) all combined to expose the Group to a heightened level of operational risk. | We have enhanced control frameworks and policy standards to improve the identification and management of operational risk within each of our Divisions. Material events are escalated to Divisional and Group Executive. |
| **Regulatory risk** | The risks arising from regulatory changes and enforcement. | • Risk of regulatory changes<br>• Compliance with regulations<br>• Potential for fines and/or restrictions in business activities | The scale of regulatory change was maintained in key areas such as: systemically important firms; prudential and conduct issues; and treating customers fairly. In addition, we saw increased regulatory scrutiny and supervision around governance, capital, liquidity and remuneration. | We have a proactive engagement strategy with the FSA and other regulators, driven by a no-surprises culture, and a well developed Regulatory Developments framework, which assigns Senior Executive responsibility for all material risks. |
| **Other risk** | The risks arising from reputation risk. | • Additional regulation can be introduced as a result of other risk losses<br>• Failure to meet expectations of stakeholders | On reputation, government support brings heightened public scrutiny of our wider Corporate Sustainability agenda e.g. how we manage customers, data, diversity, and our environmental impact. | On reputation, we established the Group Corporate Sustainability Committee in January 2010, chaired by one of our Non-Executive Directors. |
| | Pension risk is the risk that the Group may have to make additional contributions to its defined benefit pension schemes. | • Pension risk arises because of the uncertainty of future investment returns and the projected value of schemes' liabilities | The next formal valuation of the main UK pension scheme, due as at 31 March 2010, is expected to show a deficit. This may lead to an increase in contributions in 2010. | We have taken steps to mitigate the cost and risk of our main UK pension scheme and other UK and Republic of Ireland schemes by capping pensionable salary growth. |


NatWest
Let's talk on Saturdays
NatWest Helpful Banking

Our Core businesses have sustained their market positions, with customer numbers steady or growing across the Group's major retail and corporate business lines, thereby confirming the essential health and value that underpins RBS's businesses.

This is also a testimony to the efforts and endurance of our people. We can and must do better still, however. The new RBS will be known for its unswerving focus on customers.

**NatWest Saturday opening**

During the year, we changed the opening hours of more than 600 branches so that we could better meet customers' needs.

UK Retail offers a comprehensive range of banking products and related financial services to the personal market. It serves customers through the RBS and NatWest networks of branches and ATMs, and also through telephone and internet channels.

| | 2009 £m | 2008 £m |
|---|---|---|
| Net interest income | 3,452 | 3,187 |
| Non-interest income | 1,495 | 1,751 |
| Total income | 4,947 | 4,938 |
| Expenses | (3,039) | (3,196) |
| Operating profit before impairment losses | 1,908 | 1,742 |
| Impairment losses | (1,679) | (1,019) |
| Operating profit | 229 | 723 |
| Risk-weighted assets (£bn) | 51.3 | 45.7 |
| Return on equity | 4.2% | 13.1% |
| Net interest margin | 3.59% | 3.58% |
| Cost:income ratio | 59.8% | 62.4% |
| Loan:deposit ratio (excluding repos) | 115% | 116% |

11%

**increase in customer deposits in the year**

10%

**increase in mortgage customers in the year**

| Target | Return on equity (%) | Cost:income (%) | Loan:deposit (%) |
|---|---|---|---|
| **2011** | >1 | <60 | <120 |
| **2013** | >15 | c.50 | <105 |

Brian Hartzer
Chief Executive,
UK Retail, Wealth
and Ulster Bank

For biographies **see pages 8-11**

Our NatWest and RBS brands serve more than 15 million retail customers, making us the number two player in the UK banking market. We offer a full range of products, including current accounts, mortgages, credit/charge cards and deposit accounts. We also help our customers with their financial planning.

The recession made 2009 a very difficult year for our customers and for UK Retail. Although the bottom-line figures are disappointing, we continued to make the kind of progress that we need to return to good health. In Branch Banking, customer deposits grew 11% on 2008, reflecting the strength of our franchises. Customers opened an extra 2.2 million savings accounts – a 20% rise – and savings balances were up by 11%. The number of current accounts increased by 3%. In Private Banking & Advice, we also saw resilient returns, with performance for mortgages and savings particularly good. Overall investment sales increased by 3% on the previous year and our Independent Financial Services business experienced a similar trend. Our Financial Planning business also performed robustly, with a market share of 14%.

We appreciate the support that the UK taxpayer continued to give RBS Group. In return, the Group agreed with the Government to support the mortgage market by lending, subject to demand, £9 billion – net – in the 12 months to the end of February 2010. The Group is on track to exceed this target on net lending by £3 billion. One result of our commitment to keep the mortgage market moving is that our share of gross mortgage lending nearly doubled, from 7% in 2008 to 12% in 2009.

As compensation for the state aid we received, we also reached an agreement with the European Commission to divest some businesses, including the RBS branches in England and Wales, and the NatWest branches in Scotland. A distinct management team is in place to manage the transition carefully. Their job is to look after the day-to-day needs of these branches and the support functions that back them up so that customers continue to receive the right standard of service.

We have worked hard to address the challenges we face. In July 2009, Brian Hartzer became Chief Executive of the UK Retail, Wealth and Ulster Bank Division. Brian joined from Australia and New Zealand Banking Group Ltd (ANZ) where he was Chief Executive Australia for all ANZ business lines.


**Did you know?**

# £10.2 billion

Our net mortgage lending in the UK was £10.2 billion


We recognise that there's strong competition on the high street and we need to help restore the reputation of The RBS Group. We intend to do this by becoming the UK's most Helpful and Sustainable bank with a strategic programme to:

- re-engage our customers
- restore the pride of our people
- radically simplify the business
- grow quality revenue.

We're already putting Helpful and Sustainable banking into practice. In September, we cut the price of un-arranged borrowing and reduced the fee we charge for unpaid items from £38 to £5 and the maximum monthly charge was halved. We also decreased referral fees, maintenance charges and interest rates for un-arranged borrowing on most accounts.

We continued to provide advice to customers and other people who are concerned about their personal finances through our flagship MoneySense programme. Through MoneySense for Adults, 1,000 trained advisers helped nearly 26,000 people through a MoneySense interview. Our MoneySense for Schools Programme, which we've been running for 16 years, teaches children how to manage their money. In 2009, more than 28,000 lessons were delivered in over 1,500 schools. Scottish Financial Enterprise recognised the success of MoneySense and gave us their Innovation for Investment in the Community Award in 2009. For customers who find themselves in financial difficulty, we have invested in more people to help them, and also developed an income and expenditure toolkit which is already being used to help 40,000 customers a month better understand how they can manage their money.

It's also important that we provide a service that fits in with our customers' lifestyles. Many of our customers want to visit a branch but can't do so during the week. It's important for them that they can come and talk to us on a Saturday and during the year we changed the opening hours of more than 600 branches so that we could better meet their needs.

To become more efficient we have invested in online banking and the number of active online banking customers increased by almost one quarter during the year. Our online customers have benefited from improved help facilities and we launched our online retirement planning tool for Private Banking customers, which will help them plan for the future.

Over 5.5 million accounts have chosen to convert to paperless banking. Receiving their statements online rather than through the post is better for the environment and has saved postage and printing costs.

To increase the service options available to our customers we introduced almost 450 Cash Deposit Machines to more than 250 branches. This enables customers to make deposits without queuing and, so far, more than £2 billion has been deposited in this way, which has freed up a significant amount of our employees' time to serve customers even better.

We continued to take advantage of developments in technology to improve the service we provide our customers. During the year, we were the first UK bank to launch a mobile banking application for the iPhone. We were delighted by its popularity as we received 300% more customer registrations than we had originally targeted.

More changes are in the pipeline through our Retail Transformation Programme as we apply Lean thinking and techniques across the business. Already, our first pilots have delivered efficiency savings amongst our customer facing teams, and we expect these benefits to continue as we apply the lessons learned across the country.

We are committed to improving what we do to become the UK's most Helpful and Sustainable bank and it's encouraging that both RBS and NatWest retain a strong position for service in our customers' eyes. We know we still have a long way to go and that 2010 will be a demanding year. However, we're confident that with the changes we're making we'll build a successful business that will play a huge part in returning the Group to self-sufficiency.

UK Corporate is a leading provider of banking, finance, and risk management services to the corporate and SME sector in the United Kingdom. It offers a full range of banking products and related financial services through a nationwide network of relationship managers, and also through telephone and internet channels. The product range includes asset finance through the Lombard brand.

| | 2009 £m | 2008 £m |
|---|---|---|
| Net interest income | 2,292 | 2,448 |
| Non-interest income | 1,290 | 1,289 |
| Total income | 3,582 | 3,737 |
| Expenses | (1,530) | (1,637) |
| Operating profit before impairment losses | 2,052 | 2,100 |
| Impairment losses | (927) | (319) |
| Operating profit | 1,125 | 1,781 |
| Risk-weighted assets (£bn) | 90.2 | 85.7 |
| Return on equity | 10.3% | 18.0% |
| Net interest margin | 2.22% | 2.40% |
| Cost:income ratio | 42.7% | 43.8% |
| Loan:deposit ratio | 126% | 142% |

100,000

**start-up accounts in the nine months to September**

7%

**reduction in costs in the year**

| Target | Return on equity (%) | Cost:income (%) | Loan:deposit (%) |
|---|---|---|---|
| **2011** | >5 | <45 | <135 |
| **2013** | >15 | <35 | <130 |

Chris Sullivan,
Chief Executive,
UK Corporate

For biographies **see pages 8-11**

Shortly after he became Chief Executive of our Corporate Banking Division in August 2009, Chris Sullivan told a gathering of colleagues, “The thing we are here to do is to support business customers to run successful businesses.”

The recession and the need to rebuild our own business could have distracted us from that task. But it didn’t. Instead, we knew that as more start–ups choose RBS over any other bank we had a responsibility to support our customers in difficult times – and that is exactly what we did.

In October, we launched the Business Hotline. Staffed by a team of experienced business bankers, from 8am to 8pm five days a week, Business Hotline offers small and medium-sized enterprises (SMEs) free advice and a second opinion in cases where their lending application has been turned down. Business Hotline is open to all SMEs, not just RBS or NatWest customers.

At its busiest times, Business Hotline has taken over 100 calls a day. Although we believe that RBS and NatWest get it right most of the time, we have changed a number of our decisions not to lend as a result of calls to Business Hotline and we’ve also been able to lend to companies who contacted us having been turned down by other banks.

In November, we published our first ever SME Customer Charter. It tells businesses what they can expect from us and how we will behave. It reaffirmed our Committed Overdraft Promise, extending it to the end of 2010. That means customers’ committed facilities will remain in place for at least 12 months. We also promised not to increase overdraft pricing unless there is a material increase in the risk associated with lending. Where the risks fall, we will reduce SMEs’ prices.

We offer our customers a combination of a committed overdraft and a price promise. As a result, nine out of 10 small business customers have had their overdraft facilities renewed at the same or a lower margin.

We offer two years’ free banking to start-ups and opened more than 100,000 start-up accounts in the nine months to September 2009.

Did you know?

5,000

We are providing new loans to over 5,000 businesses per week


One of the ways we respond to customers' needs is by finding better methods of serving them. In 2008, we piloted a branch dedicated to business customers, in Colchester. It worked well, so we rolled out a further four business branches in 2009. Each branch has two business experts positioned at the front of the banking hall, supported by teams who have been specially trained to meet our business customers' needs.

Our customers like what we've done. Their comments show that 91% were very satisfied with what the business branch offers and 86% were prepared to recommend the service. Our research showed that in December 2009, Relationship Directors in Branch Business Banking who have a dedicated business branch earned considerably higher customer satisfaction scores than their peers who don't have that service. Four of the five branches received 100% scores in mystery shopping exercises.

During a recession some customers need extra help. We have a Specialised Relationship Management team made up of 500 experienced bankers, many of whom have worked through previous downturns. They monitor how customers are doing and can spot when a customer seems to be facing particularly difficult trading conditions. That allows us to give these customers close, one-to-one help until their business is returned to health.

We have also strongly supported government actions to keep business moving. Under the Enterprise Finance Guarantee (EFG), the government guarantees 75% of a loan to firms with a turnover of up to £25 million. We have led the field, offering loans worth more than £283 million to over 2,500 SMEs under the scheme. By early January 2010, £258 million of that had been drawn down, 42% of the total drawn under the EFG from all banks.

In February 2009, we launched our SME Regional Funds. Worth an extra £3 billion, these are 12 funds of £250 million each, which we made available to all nine Regional Development Agency (RDA) areas in England, and in Scotland, Wales and Northern Ireland (provided by Ulster Bank).

Our strong support for the EFG, our SME Regional Funds and other initiatives demonstrate our determination to meet our Business Lending Commitments agreed with the Government. We set up a task force that is responsible for making sure we meet the Commitments. We have developed closer links with RDAs and other government bodies.

And, of course, we continue proactively to look for ways to help SMEs. We are currently approving 85% of all business applications for credit and providing new loans to over 5,000 businesses each week. But demand has been weak, making our Commitments tough to meet. If all of our business customers had fully utilised the facilities we offered them, we would comfortably have exceeded our Commitments target.

We continue to work with our customers in other ways too. In 2009, we played a lead role in helping UK corporate clients raise funding from bond markets more often than any other bank. And we participated in 80% of all equity fundraising from the stock market for UK corporates in 2009.

These actions show that we take serving our customers seriously. Without being complacent, it's working. Business & Commercial Banking and Corporate & Institutional Banking both maintained their market-leading customer satisfaction scores. This tells us that our people were out there doing the right things for customers, despite the challenges we faced.

2009 was also the year we set about dealing with our past and making sure we can grow sustainably in future. The APS and EU divestment deals have been agreed. We completed our strategic review and we are implementing the plan. Our cost reduction actions have already saved substantial sums.

We are investing in our people and technology, and our impairments programme is allowing us to manage the impact of bad debts and asset write-downs. We have enhanced how we manage risk, by introducing improved governance and risk management models.

Bridging the gap between loans and deposits is an important part of our plan. Corporate Banking Division deposits increased by £6 billion year-on-year from their January 2009 levels, and a significant focus for us is to self-fund the loans on our books.

Wealth provides private banking and investment services in the UK through Coutts & Co and Adam & Company, offshore banking through RBS International, NatWest Offshore and Isle of Man Bank, and international private banking through RBS Coutts.

| | 2009 £m | 2008 £m |
|---|---|---|
| Net interest income | 663 | 578 |
| Non-interest income | 446 | 481 |
| Total income | 1,109 | 1,059 |
| Expenses | (656) | (695) |
| Operating profit before impairment losses | 453 | 364 |
| Impairment losses | (33) | (16) |
| Operating profit | 420 | 348 |
| Risk-weighted assets (£bn) | 11.2 | 10.8 |
| Net interest margin | 4.38% | 4.51% |
| Cost:income ratio | 59.2% | 65.6% |
| Loan:deposit ratio | 38% | 36% |

21%

**increase in operating profit**

>1 million

**calls handled in the year by Coutts24**

| Target | Cost:income (%) | Loan:deposit (%) |
|---|---|---|
| **2011** | <60 | <35 |
| **2013** | <50 | <30 |

Brian Hartzer
Chief Executive,
UK Retail,
Wealth and Ulster Bank

For biographies
**see pages 8-11**

Some of our most famous brands – Coutts, RBS Coutts, Adam & Company and RBS International – make up our Wealth Management business. They have an international presence and offer a proven suite of products. Most importantly, in each of our businesses, clients come first.

Coutts is a prime example of that philosophy. We listen to clients and deliver what they want, from direct wealth management services to advice about how to manage their philanthropic activities.

We operate a telephone service for clients, Coutts24, that handles calls 24 hours per day, seven days a week, in every week of the year. In 2009, we handled more than one million client calls.

While clients sometimes want to speak to us, at times they prefer to do their business online. An average of 2,000 clients each day logged onto our online banking service. They completed 350,000 payments and transfers during 2009, over 50 per cent of all such transactions across the business.

Our website has also become a very effective tool for attracting new clients. We converted 41% of enquiries that came to us via the Coutts.com website into new clients for Coutts.

We are conscious of our wider responsibilities and know that our clients often want to channel their money where it will make the greatest difference. We help them to do that. Our Wealth Institute works with clients who may run a family firm or have expressed a desire to increase their philanthropic giving. The Wealth Institute is building a portfolio of services that we believe will build trust in us among these clients. In 2009, Coutts launched a microfinance pilot fund, which provides small-scale financial support for people who have the means to earn their way out of poverty. We invited our clients to contribute to the fund, which supports projects in Cambodia, Malawi, South Africa, Nicaragua and Haiti.

Initiatives like this have proved successful at Coutts, and we are now starting to roll them out across the RBS Coutts business.

**Did you know?**

45%

Visits to our websites increased by 45% during the year

During the year, we launched the Coutts Charitable Giving Account in response to client feedback. It helps clients to keep track of their donations to charities through our online and telephone banking services. We do not charge any administration fees for this account.

Our centuries-old heritage has seen Coutts progress as a sustainable and responsible business. We continued to promote this philosophy in 2009, when we launched a social enterprise initiative to inform clients about this rapidly growing and vibrant sector. Coutts CEO Michael Morley also 'job swapped' with The Big Issue's Nigel Kershaw. Nigel spent time at Coutts, learning what we do and how we do it, before Michael visited the Vauxhall offices of the Big Issue. There he reviewed their Social Enterprise Investment Fund portfolio, followed by a live pitch to a potential investor.

At Coutts, we work with many of the UK's leading entrepreneurs and we are committed to growing our share of that market. One of the ways we did this in 2009 was by publishing new research about an issue that is hugely important to our entrepreneurial clients: how they exit from their business. 'The Long Goodbye – myths, realities and insights into the business exits process' drew on the experiences of some of the UK's successful entrepreneurs as well as experts from academia and Coutts. The report's key message was simple: plan ahead. More than that, 'The Long Goodbye' included concrete guidance about the practical steps you need to take if you are looking to leave a business that you have built-up.

Coutts continued to invest in groundbreaking research to enhance its client proposition. In November, we published the Coutts Million Pound Donors report, in association with the Centre of Philanthropy at the University of Kent. It showed the resilience of philanthropy despite economic difficulties.

Coutts has a tradition of supporting the performing arts that goes back 300 years. We continued this in 2009 as we became the principal sponsor of the Almeida Theatre for the seventh year running. Also in 2009, we sponsored the National Theatre's sold-out performance of Phedre, which starred Dame Helen Mirren.

Delivery of excellent customer service was at the forefront of RBS International's activities. All of our staff supported National Customer Service Week in October. Among other things, that involved senior managers swapping places with their customers for a day. The UK National Customer Service Awards for Financial Services named our Isle of Man Peel branch the 'Customer Service Team of the Year'. To win the accolade they successfully fended off competition from 52 other entrants. Our customers rated the service we provide at Peel at more than 96%, a score that places the branch on a par with the very best service firms in the world.

Adam & Company has been a keen supporter of the arts and we emphasised this by sponsoring the Scottish Ballet's 40th anniversary tour.

After discovering high net worth women were turning away from financial institutions for advice, RBS Coutts launched a new private banking proposition with them specifically in mind. As part of the RBS Coutts Woman initiative, we sponsored the Women in Asia awards, which aim to promote, inspire and recognise the growing ranks of successful women in business.

We also took some hard financial decisions to support clients by investing in the business. One of The RBS Group's biggest investments in 2009 was in Wealth Management, with multimillion pound funding to roll out a new technology platform across the business. It is part of the Wealth Management Platform Programme and will revolutionise how our private bankers support their clients. This will also be the first time Adam & Company, Coutts and RBS Coutts will be on a single global platform. Our private bankers will have a single view of each client and the number of administrative tasks they have to undertake will diminish. This will make them more productive, reduce our costs and, we hope, enhance the service our clients receive. It will also give us much better management information and will support all of our major brands.

Global Banking & Markets (GBM) is a leading banking partner to major corporations and financial institutions around the world, providing an extensive range of debt and equity financing, risk management and investment services to its customers. The division is organised along six principal business lines: money markets; rates flow trading; currencies and commodities; equities; credit markets and portfolio management & origination.

| | 2009 £m | 2008 £m |
|---|---|---|
| Net interest income | 2,243 | 2,440 |
| Non-interest income | 8,766 | 274 |
| Total income | 11,009 | 2,714 |
| Expenses | (4,660) | (3,988) |
| Operating profit/(loss) before impairment losses | 6,349 | (1,274) |
| Impairment losses | (640) | (522) |
| Operating profit/(loss) | 5,709 | (1,796) |
| Risk-weighted assets (£bn) | 123.7 | 151.8 |
| Return on equity | 30.7% | (8.4%) |
| Net interest margin | 1.38% | 1.34% |
| Cost:income ratio | 42.3% | 146.9% |
| Loan:deposit ratio | 194% | 192% |

4th

**in foreign exchange, GBM improved its ranking from 5th**

£6,349 million

**operating profit before impairment losses**

| Target | Return on equity (%) | Cost:income (%) |
|---|---|---|
| **2011** | c.15 | <65 |
| **2013** | 15-20 | c.55 |

John Hourican
Chief Executive,
Global Banking & Markets

For biographies **see pages 8-11**

Our businesses performed well during 2009. We faced up to the major challenges from our past as well as those facing the investment banking industry. And we set out the strategy that we are confident will allow us to compete successfully in the future.

We made sure that our clients are at the heart of that strategy. Throughout the year we continued to support them in a number of ways including advisory services, market execution, risk management and the provision of capital.

That brought a number of successes in 2009, including:

- acting as joint financial advisor to BAA on its sale of Gatwick Airport;
- providing Vattenfall with our full investment banking product suite in support of their acquisition of Nuon; and
- supporting China WindPower's HKD595 million share placement.

In 2009, we participated in the five largest equity issues worldwide and six out of 10 of the biggest Debt Capital Market (DCM) transactions globally. Underlining the strength of our DCM offering, we participated in one in eight of all bonds issued by corporates and financial institutions in 2009. Anticipating trends during a turbulent period in the markets, we reopened the US dollar, euro, sterling and swiss franc corporate bond markets in early 2009.

Our Markets business had a strong year, capitalising on the volatile conditions that persisted during the first six months of 2009.

We consolidated our Top Five positions in the core fixed income securities business areas, bonds, rates and currencies, and made gains in important markets such as equities.

The key to our success was a relentless focus on clients. We implemented a global priority client initiative, which aligned services across GBM and helped further build sustained competitive advantage across our core product areas.

**Did you know?**

# 5 and 6

RBS participated in the five largest equity issues worldwide and six of the ten largest debt capital market issues


Throughout the year, our Sales teams built strong relationships with global clients, providing views on the market and working in partnership with researchers, strategists, structurers and traders to meet clients' investment and risk-management objectives.

We have compelling strengths in the markets in which we choose to compete and it is rewarding when others recognise that, too. IFR named us "Sterling Bond House", The Banker magazine gave us the award as "Most Innovative in Loans & Leveraged Finance 2009" and Euromoney named us "Best Structured Products House".

As well as serving customers, we had to deal with the problems of the past and make sure we are in the best shape to compete in future. Our balance sheet needed to be reduced and we carried too many Risk Weighted Assets. We had to tackle those issues as a matter of urgency and we did, making good progress. We improved our liquidity profile in the early part of the year, leaving us less susceptible to extreme fluctuations in the wholesale money markets.

During the year, we launched a major, two-year global investment programme. This will improve the quality and efficiency of the control environment, help us to meet revenue targets and optimise how we use our technology. The programme will establish class-leading front-to-back systems to improve the management of client transactions and process infrastructure that will support business growth in the coming years. It will also enhance GBM's capability to respond to increasingly sophisticated regulatory requirements worldwide. We made progress in the initial phases and the programme is on track to deliver its objectives.

Risk and how we manage our exposures came under scrutiny after the events of 2008. We responded with a more thoughtful approach to risk management, putting new systems and processes in place. This included the successful design and implementation of enhancements to the business's first line of defence, which incorporates The Risk and Control Committees, the Front Office Supervisory Policy and Counterparty Exposure Management. Becoming best in class in managing risk is an important feature of our investment programme.

Our Risk function was also instrumental in the creation of a culture for self-identification and the raising of risk issues throughout the division.

As part of the Group's Strategic Plan, our Support team focused on the implementation of the common, cross-divisional operating model for Support in Europe and the Middle East, as well as major property and staff moves with the Stamford office in the US and our Bankside building in London opening for business in 2009.

As part of the agreement we reached with the European Commission we are selling our stake in RBS Sempra Commodities (RBSSC), a joint venture with a US energy company. In February 2010, we announced the sale of RBSSC's Metals, Oils and European Energy business lines to J.P. Morgan. Discussions continue with our joint venture partner Sempra Energy on a range of ownership alternatives for the remainder of the business.

We would not have been able to meet the challenges we have faced during 2009, without our people.

The GBM People Programme developed in 2009, underpins our objective to be the partner of choice for our clients by having the right values and behaviours embedded in our organisation. It aligns employee objectives with business priorities and focuses on attracting and retaining the right people with the right skills, in the right places, motivated, engaged and performing. We have clearly set out our vision and values for the future.

Following the acquisition of ABN AMRO's wholesale banking businesses, good progress has been made in integrating performance and development across the division. We have enhanced the input into performance assessments from our Risk function and have further strengthened assessment practices for senior business leaders.

In 2009, we demonstrated that we can compete at the highest level in our core franchises and provide value added services to our clients around the world. We have a clear, client-focused strategy in place and we intend to maintain this momentum, execute the plan and enable The RBS Group to return to self-sufficiency.

Global Transaction Services ranks among the top five global transaction services providers, offering global payments, cash and liquidity management, and trade finance and commercial card products and services. It includes the Group's corporate money transmission activities in the UK and the US as well as Global Merchant Services, the Group's United Kingdom and international merchant acquiring business.

| | 2009 £m | 2008 £m |
|---|---|---|
| Net interest income | 912 | 937 |
| Non-interest income | 1,575 | 1,494 |
| Total income | 2,487 | 2,431 |
| Expenses | (1,475) | (1,375) |
| Operating profit before impairment losses | 1,012 | 1,056 |
| Impairment losses | (39) | (54) |
| Operating profit | 973 | 1,002 |
| Risk-weighted assets (£bn) | 19.1 | 17.4 |
| Net interest margin | 9.22% | 8.25% |
| Cost:income ratio | 59.3% | 56.6% |
| Loan:deposit ratio | 21% | 25% |

38

**countries in the GTS network**

>3 billion

**BACS transactions processed in the UK annually**

| Target | Cost:income (%) | Loan:deposit (%) |
|---|---|---|
| **2011** | <60 | <25 |
| **2013** | <50 | <20 |

Brian Stevenson, Chief Executive, Global Transaction Services

At Global Transaction Services (GTS) we help customers to manage their cash and liquidity, and to make and receive payments. Globally we are a Top Five player. Our businesses – trade finance, merchant acquiring, corporate card services and cash management – are closely linked to other parts of RBS, notably Corporate Banking, Citizens, Ulster Bank and Global Banking & Markets (GBM).

We process over one billion payments and collections each year. Our domestic cash management business handles over three billion BACS transactions in the UK annually. In trade finance we process one million collections, guarantees and letters of credit each year. Our cards business processes 6.4 billion transactions per annum worth £236 billion.

During the year we developed and began to implement our strategic plan. We formed Global Network Banking (GNB) with GBM to ensure that together we deliver network services effectively to the international subsidiaries of the Group's customers. We will build on GNB in the future. In Global Trade Finance, we're working to bring the benefits of the MaxTrad global trading platform to the UK market. 2009 also saw us take steps towards launching GTS SalesLine in the UK. It is a telephone sales service for Business & Commercial Banking clients that delivers cash management and trade solutions through a team of experienced specialists.

Our strategic plan looks forward to 2013. During that time we aim to strengthen our penetration of the UK and Citizens markets and to gain even more benefits from our links to the rest of the Group by cross-selling to existing RBS clients who could benefit from using our services. We will also sell our Global Merchant Services business as part of the agreement we reached with the European Commission.

In 2009, we began to market our new e-invoicing product to UK clients. e-invoicing can significantly reduce our customers' costs and increase efficiencies in both trade receivables and procurement activities. It improves the user-experience for all participants in the supply chain.

Did you know?

£236 billion

Our cards businesses process 6.4 billion transactions annually worth £236 billion


We took a leading role in developing and implementing the UK's Faster Payments arrangements. We were quick to recognise the benefits it offered customers and made sure that our own implementation allowed the maximum number of customers to benefit from it immediately from its launch. We swiftly switched our standing orders to use Faster Payments instead of the old BACS system. The service is available to our retail customers through online and telephone banking, as well as in our branches. Our small and medium-sized enterprise customers can use it online or by telephone. For GTS customers, we have made Faster Payments available 24 hours a day and 365 days a year as a standard element of our Bankline online banking service. This has been very popular, as it allows customers to maximise the value of both Bankline and Faster Payments while it can be a convenient alternative or fallback option for occasional or unplanned use.

We built on our successful 2008 trial of contactless payments in London with a further trial on Stagecoach buses in Liverpool in 2009 working with Mastercard. This 'Tap and Go' trial brought contactless debit or credit card payments to UK bus users for the first time and it reinforced our position as a leading innovator in a market which we believe has high potential.

One of the major tasks we faced during the year was to integrate ABN AMRO's wholesale business with RBS. This was a challenge, not least because we were determined to maintain the best possible service for our customers and to avoid any disruption for them. We achieved that by implementing a first class client readiness programme. Six thousand clients have been notified of BIC/IBAN changes, which as a result will enable GTS to migrate more than 40,000 corporate accounts. We also concluded a Partner Bank Agreement between RBS NV and ABN AMRO II. This means that for the next three years RBS NV will continue to service the subsidiaries of ABN AMRO II parent companies that bank with the RBS network outside of the Netherlands.

We received a number of awards in 2009 which reflected both the quality and the diversity of our businesses in GTS.

We were named the fifth most used international cash manager by companies in the 2009 Euromoney survey. Our international cash management offering also won other awards, including these from Global Finance Magazine:

- Best Bank for Liquidity Management Western Europe; and
- Best Continuous Linked Settlement Bank in Europe.

Our UK domestic cash management business product was recognised in:

- The Banker 2009 Best Innovation in Cash & Technology;
- Best Transaction Banking Achievement at the Banking Technology Awards; and
- Best Payments Initiative and Most Effective Channel awards at the Financial Innovation Awards.

Our Top Five ranking in global trade finance was confirmed by a number of awards:

- Third in Western Europe trade services and second bank globally for Documentary Processing from the Global Trade Review;
- Best Supply Chain Finance Provider, Western Europe and Best Trade Finance Bank, Netherlands from Global Finance;
- Third Best Online Trade Provider and Third Best Bank for Export Finance from Trade & Forfaiting Review;
- Best Deal 2009 for J Sainsbury from Global Trade Review;
- 2009 Transaction Banking Deal of the Year for J Sainsbury (UK – Global) from Trade Finance; and
- 2009 Deal of the Year for J Sainsbury from Trade and Forfaiting.

It's great to win these awards and to receive the recognition of our peers, but the real test of our service is how our customers react.

Ulster Bank is a leading retail and commercial bank in Northern Ireland and the Republic of Ireland. It provides a comprehensive range of financial services through both its Retail Markets division which has a network of branches and operates in the personal and bancassurance sectors, and its Corporate Markets division which provides services to business customers, corporates and institutional markets.

| | 2009 £m | 2008 £m |
|---|---|---|
| Net interest income | 780 | 773 |
| Non-interest income | 254 | 266 |
| Total income | 1,034 | 1,039 |
| Expenses | (753) | (715) |
| Operating profit before impairment losses | 281 | 324 |
| Impairment losses | (649) | (106) |
| Operating/(loss) profit | (368) | 218 |
| Risk-weighted assets (£bn) | 29.9 | 24.5 |
| Return on equity | (13.3%) | 10.1% |
| Net interest margin | 1.87% | 1.89% |
| Cost:income ratio | 72.8% | 68.8% |
| Loan:deposit ratio | 177% | 179% |

**>54,000**

**retail customers acquired during the year**

**€1.25 billion**

**in business deposits taken during the year**

| Target | Return on equity (%) | Cost:income (%) | Loan:deposit (%) |
|---|---|---|---|
| **2011** | >0 | <75 | <175 |
| **2013** | >15 | c.50 | <150 |

Cormac McCarthy,
Chief Executive,
Ulster Bank

2009 was a year of further significant challenges for the economies of Northern Ireland and the Republic of Ireland, as well as for the banking industry across the island.

In response to these difficult operating conditions, Ulster Bank took decisive and timely action. At the beginning of the year, we announced a programme of initiatives designed to position the business to meet the challenges of our markets, enabling us to continue to serve the needs of our customers and to strengthen our business and its all-Ireland reach.

An important element of that programme was the merging of the First Active and Ulster Bank businesses in the Republic of Ireland. The programme, which was completed in February 2010, saw the integration of the First Active branch network and operations with that of Ulster Bank and the transfer of all First Active customers to Ulster Bank. As a result of the merger programme, Ulster Bank's presence throughout Ireland is now 238 branches (146 in the Republic of Ireland, 92 in Northern Ireland) and we now serve our 1.9 million customers under one brand across the island.

In addition, we also improved efficiency across all areas of our businesses through the implementation of a number of cost management initiatives. We announced a voluntary redundancy programme in January, which was oversubscribed and under which around 700 people left the organisation with a further 300 or so due to leave in early 2010.

From the beginning of 2009 we prioritised the introduction of a number of initiatives designed to support our customers during these difficult times. The "Flex" initiative is a financial review designed to help those who are having trouble in meeting their full monthly debt repayments because of a change in their financial circumstances. We have provided specialist training to our staff which enables them to take our customers


**Did you know?**

# €1 billion

Our island of Ireland SME Support Fund for SME businesses was worth €1 billion


through a step by step budgeting process. Where a customer's income falls short of their outgoings, we seek to find a solution such as extending the term of the loan or temporarily reducing payments. Since we introduced Flex in July 2009, we have assessed around 5,700 customer cases. In 87% of these cases, we approved new Flex arrangements, while for some customers no new arrangements were needed.

We also launched our MoneySense for Adults programme during the year, which offers free and balanced information to customers to help them better understand and manage their money. The MoneySense programme is delivered online, in print and face-to-face in all Ulster Bank branches across the island of Ireland. Specially trained and dedicated MoneySense Officers are available in all of our branches to provide practical one-to-one support to both customers and non-customers who want help with budgeting and money management. The programme built on our successful MoneySense for Schools programme, which we rolled out to 19 schools during the year.

We have also extended dedicated support to our small and medium-sized enterprise (SME) customers with the launch of a €1 billion all-Ireland SME fund that provides businesses with access to working capital and development funding.

In Northern Ireland, under the Enterprise Finance Guarantee (EFG) scheme, the government guarantees 75% of the value of a small firm's loan up to the value of £1 million. Ulster Bank provided some 75% of the total value of EFG loans drawn down in Northern Ireland in 2009.

We understand that supporting businesses means more than just providing financial support. That is why we facilitate Small Business Can.com, our social network for small businesses. Launched in May 2009, this is an interactive online resource designed to help the SME community across the island of Ireland successfully navigate through the economic downturn. Small Business Can.com was established by entrepreneurs for entrepreneurs and aims to help business people grow their enterprises by sharing knowledge, experience and contact networks. Open to all businesses free of charge, the site attracted 66,000 hits during the year.

The PricewaterhouseCoopers Business Banking Tracker Survey, published in November 2009, provides an indication of our commitment to our customers. It shows that, compared with other leading banks, we received higher ratings from our customers across the island of Ireland in the areas of customer satisfaction, loyalty and advocacy. All of this was achieved against a tough trading background and gives us a strong platform to build on in 2010.

We focussed on increasing customer deposits and our share of new corporate deposits increased to 18% in Northern Ireland and 22% in the Republic of Ireland. In the retail market, we introduced a range of initiatives including Bonus Saver, eSavings Plus, Pathway and a number of fixed term and fixed rate products which saw retail customer deposits increase by almost £1 billion during the year.

While the global economy is showing some signs of recovery, conditions in Ireland remain challenging. However the early actions we have taken have positioned us well to operate through these difficult economic conditions and to take maximum advantage of the upturn as it emerges. Throughout, we will maintain our commitment to engage with our people and serve the needs of our customers.

US Retail & Commercial provides financial services primarily through the Citizens and Charter One brands. US Retail & Commercial is engaged in retail and corporate banking activities through its branch network in 12 states in the United States and through non-branch offices in other states. It ranks among the top five banks in New England.

| | 2009 £m | 2008 £m |
|---|---|---|
| Net interest income | 1,775 | 1,726 |
| Non-interest income | 949 | 861 |
| Total income | 2,724 | 2,587 |
| Expenses | (2,135) | (1,622) |
| Operating profit before impairment losses | 589 | 965 |
| Impairment losses | (702) | (437) |
| Operating (loss)/profit | (113) | 528 |
| Risk-weighted assets (£bn) | 59.7 | 63.9 |
| Return on equity | (1.8%) | 7.7% |
| Net interest margin | 2.37% | 2.68% |
| Cost:income ratio | 78.3% | 62.7% |
| Loan:deposit ratio | 80% | 96% |

4%

**increase in customer deposits in the year**

>3.7 million

**customers converted to upgraded online platform**

| Target | Return on equity (%) | Cost:income (%) | Loan:deposit (%) |
|---|---|---|---|
| **2011** | c.10 | <70 | <90 |
| **2013** | >15 | <55 | <90 |

Ellen Alemany
Chief Executive, Citizens and Head of Americas

For biographies **see pages 8-11**

Our aim is to earn our customers' loyalty and serve as their primary banking partner, providing local, helpful service and global resources. We will be a top-tier leader in our markets, consistently perform for our shareholders and invest in our colleagues and the community. If we achieve this, we'll become a leading super-regional bank.

We started this job during 2009 and embarked on a plan that takes us to our goal by 2013. But we also had to deal with weaknesses from our past, as well as the effects on us and our customers of the most acute recession. We took some very significant steps to bolster Citizens Financial Group's capital by converting $1.730 billion of subordinated debt and $1.585 billion of preferred equity into common equity, which when combined with lower risk-weighted assets, increased our Tier 1 risk-based capital to 11.62% from 9.15% at December 2008.

If we're to become a top super-regional bank, we need to focus on our core businesses. That's why we exited all activities in Indiana, selling 65 branches to Old National Bank. We also identified several business lines across the United States and designated them as non-core. They include our Marine/RV business, our Dealer Finance business and portions of our Auto Lending business. By isolating non-core activities that don't fit with our long-term plans, we are able to focus our investments in infrastructure, technology and marketing to achieve leading positions in the markets in which we choose to compete.

During 2009, we achieved Top 20 status in retail mortgage lending and Top Five in auto finance among bank lenders to prime customers. We also launched the TruFit Student Loan on 1 July. We designed this new private student loan product to fill the gap after students exhaust their federal student loan eligibility.

Our Commercial Banking market penetration increased, with lead bank share of business increasing from 6% to 7% in the $5 million to $25 million business segment and from 6% to 8% in the Middle Market and Specialized Lending segment, for companies with $25 million to $500 million in annual sales.


Did you know?

# $6.5 million

Our Green$ense programme rewarded retail customers with more than $6.5 million


We took a number of steps to reward our customers' loyalty and to give them incentives to spend more with us, while they reach their own savings goals. HomeBuyer Savings, College Saver and GoalTrack Savings help customers to save for major events in their lives and their families lives and to set their savings plans, and we give them bonuses when they reach their goals.

These initiatives were part of the reason for our success in boosting customer deposits during the year by 4%.

Our Green$ense programme rewarded retail customers with more than $6.5 million during 2009 for helping the environment by choosing electronic transactions that cut down the amount of paper we use. The programme targets and rewards environmentally conscious customers who receive 10 cents for each electronic transaction they make, up to $120 per year. Green$ense includes automatic enrolment in e-Statements and free Online Banking with Bill Pay.

We try our best to serve our customers and it is rewarding when other people recognise our efforts. Informa Research Services, an independent research firm, named our Green$ense and Everyday Points rewards programmes best in class in its 2009 Retail Relationship and Reward Programs Account Acquisition and Summary.

We have invested in our online banking service and that has paid off. More than 3.7 million Citizens and Charter One customers were converted to our upgraded online platform. It gives customers access to more accounts and provides them with more information, including mobile alerts. Customers can open new accounts, view pending transactions, pay bills and transfer money between their various Citizen Bank and Charter One accounts, as well as accounts with other financial institutions.

Of course, while online banking is important for some customers, others like to come to a branch and speak to us. As a new twist in expanding our network of Citizens and Charter One in-store branches, we opened our first branch inside a Dunkin' Donuts coffee and baked goods shop. The new location in Bellingham, Massachusetts, is part of an extensive in-store network with a variety of retail partners, mainly in supermarkets, that includes more than 475 locations in 12 states.

Our Wealth Management division created a new programme for mass-affluent clients and began piloting Premier Banking from Citizens Bank in Massachusetts. This is an exclusive offering of products, services and creative solutions for select clients who are looking for a more efficient and convenient way to manage their funds and who prefer more dedicated relationship management. Premier Banking is designed to help us take advantage of a market that is large but which we have not penetrated much in the past. To help us make progress, we've assigned a dedicated team of relationship managers to target the mass-affluent market.

We regularly used the expertise and global reach of the RBS Group to support our customers. Other RBS Group entities, including RBS Securities, collaborated with Citizens Bank, Charter One and RBS Citizens in a number of high-profile bond issues and loan syndications during the year.

It is important to us and to our employees that we at Citizens are good citizens in our communities. In 2009, we launched Energy$ense. It is a multi-faceted initiative to help local non-profit organisations and Citizens Bank and Charter One customers address heat, utility and other energy costs. As part of the programme, Citizens provided more than $500,000 in energy assistance grants to homeless shelters and non-profit organisations that offer home weatherproofing and utility payment assistance to consumers. We also provide below market-rate loans to eligible consumers who want to make their homes more energy efficient, with a limited-time option to defer their first payment for 90 days. We also provide consumers with information about how they can stay warm and safe during the winter. Helpful tips include choosing electric heaters and extension cords that are UL rated, insulating pipes and water heaters, and installing carbon monoxide detectors and smoke alarms.

The Dave Thomas Foundation for Adoption honoured Citizens for the third consecutive year as the Best Adoption-Friendly Workplace in the financial services industry, as well as number two on the foundation's top 100 US employers in 2009. Conceive is a national publication devoted to pre-pregnancy health and fertility. It ranks companies that continue to help employees build their families and it placed us as the top company in offering family-building benefits.

RBS Insurance sells and underwrites retail and SME insurance over the telephone and internet, as well as through brokers and partnerships. Its brands include Direct Line, Churchill and Privilege, which sell general insurance products direct to the customer, as well as Green Flag and NIG. Through its international division, RBS Insurance sells general insurance, mainly motor, in Germany and Italy. The Intermediary and Broker division sells general insurance products through independent brokers.

| | 2009 £m | 2008 £m |
|---|---|---|
| Insurance net premium income | 4,354 | 4,306 |
| Total income | 4,460 | 4,430 |
| Expenses | (759) | (772) |
| Net claims | (3,635) | (3,032) |
| Operating profit before impairment losses | 66 | 626 |
| Impairment losses | (8) | (42) |
| Operating profit | 58 | 584 |
| Return on equity | 1.6% | 18.3% |
| Cost:income ratio | 17.0% | 17.4% |
| Adjusted cost:income ratio | 92.0% | 55.2% |

| Target | Return on equity | Cost: income less claims % |
|---|---|---|
| **2011** | >15 | <70 |
| **2013** | >20 | <60 |

Paul Geddes
Chief Executive,
RBS Insurance

For biographies **see pages 8-11**

This is the largest personal lines insurer in the UK. Brands like Direct Line, Churchill and Green Flag are household names. They have helped us become the UK's largest motor insurer and the number two household insurer. Market leading positions like that don't happen by accident. We've earned them because we focus on what our customers need.

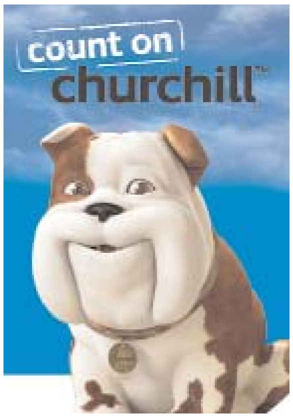
As part of the settlement we reached with the European Commission, we will sell RBS Insurance during the next four years. We hadn't wanted to do that. It is an excellent business. We saw it as an important part of the Group's future.

While it remains part of RBS, we will manage RBS Insurance with the same care and attention as if we were keeping it. That's the right thing to do for our customers and if we serve them well we will maximise the price we get when we sell the business.

Despite the significant impact of bodily injury claims to RBS Insurance's 2009 results, its underlying performance remained strong. Own brand motor policies increased by 8% on 2008, while non-motor own brand policies were up 13% on 2008.

As the floods loomed in Cumbria, we sent text messages to 29,000 customers who live in areas that the Met Office had said were at high risk of severe weather, with tips and advice on how to protect their homes from flooding. After the floods, we tried to give our customers support when they needed it most. A dedicated team of advisers was on the ground helping customers to cope with their losses and assisting them to make claims.




Introduced in 2008, Telephony Virtualisation, a smart piece of technology that allows 27 contact centres in the UK to act as one, was especially useful during the floods. If one of our call centres was operating at full capacity, the call could be picked up at another centre. It enabled customers' calls to be answered more quickly and our people and premises to be utilised more efficiently.

The snows that saw out 2009 gave Green Flag its busiest month of the year. We received more than 237,000 calls from customers in December. Our UK network of recovery vehicles meant that we were able to get to customers in need.

If your car gets bumped, you need to know you can rely on your insurer and you want to know that the repair job will be done as well as possible. In June, RBS Insurance introduced PAS 125 Kite Mark to all 16 of our repair centres. PAS 125 is a standard of quality for vehicle body repair and it carries the Kite Mark symbol awarded by BSI, the independent British standards organisation. The PAS 125 Kite Mark provides an auditable process which ensures that cars are safely repaired back to their original Euro New Car Assessment Programme - NCAP - safety ratings. That means that all of our vehicle repairs should meet the highest standards of workmanship and service.

Direct Line was a pioneer of direct insurance in the UK more than two decades ago. That spirit of innovation is still strong in RBS Insurance because it is so important in giving us an edge with our customers. With several airlines going into liquidation in 2009, Direct Line was one of the few travel companies to introduce airline failure cover to its travel insurance products. The policy protects customers from financial loss if their airline goes out of business. It also covers the cost of a return flight if an airline collapses while customers are on holiday.

Green Flag launched its Rescue Me iPhone application in December. The app offers a range of motoring breakdown features, from free live streaming traffic updates to a click-to-call function, as well as providing iPhone users with direct call connection to Green Flag.

NIG introduced a property-based insurance policy designed for SME businesses. This product allows underwriters to reflect a customer's positive risk features, which means improved prices for buyers.

Our commitment to customers and to innovation shows through in our customer satisfaction results. In December, The Leadership Factor, a research company, surveyed customers and found that we scored 86% on the Satisfaction Index for Sales & Service and 85% for Claims.

Our employees are also satisfied and motivated, despite the uncertainties they have faced in the last two years. Our annual survey of employees, conducted independently by Towers Perrin ISR, showed that we had improved or maintained our scores in 15 out of the 16 categories compared with 2008. The results were especially strong for Customer Focus, Cooperation and Working Relationships, and Respect and Diversity.

Last year might have been a rocky one because of the uncertainties surrounding RBS Insurance. But our people have delivered strongly once more, showing their commitment to serving customers. We have to sell RBS Insurance, but until then it remains in our good hands.

# Business Services & Central Functions

Business Services (formerly Group Manufacturing) supports the customer-facing businesses and provides operational technology, customer support in telephony, account management, lending and money transmission, global purchasing, property and other services. Business Services drives efficiencies and supports income growth across multiple brands and channels by using a single, scalable platform and common processes wherever possible. It also leverages the Group's purchasing power and is the Group's centre of excellence for managing large-scale and complex change.

Central Functions comprises group and corporate functions, such as treasury, funding and finance, risk management, legal, communications and human resources. The Centre manages the Group's capital resources and Group-wide regulatory projects and provides services to the operating divisions.

40,000m²

**of space saved by our Intelligent Working initiative**

Ron Teerlink, Chief Administrative Officer

For biographies **see pages 8-11**

## Business Services

Business Services is the shared services Division of the RBS Group. We provide a range of high quality support services to the customer-facing businesses of the Group.

- **Technology Services** designs, builds, implements and supports global technology solutions for our Divisions and Group functions.
- **Group Operations** shapes and executes service delivery and transaction processing for our customers, in the most efficient, secure and effective way possible.
- **Property Services** provides portfolio management and workplace design solutions as well as day-to-day facilities management services across our global footprint.
- **Group Sourcing & Vendor Management** selects, manages and develops the best and most suitable supplier relationships, making sure that the current and future purchasing needs of the Group are delivered across all locations and brands.
- **Security & Risk** provides support and advice to protect our customers, our information and our people against key security and fraud threats.

Business Services creates value through economies of scale, the application of shared platforms, specialised knowledge and working in partnership with each of the customer-facing divisions. Our close working relationships across the Group ensure an alignment of the core business priorities with a better understanding of the allocation of costs, service pricing and business driven investment prioritisation. Our focus is to deliver high quality service for the customer and continually to make the things we're good at, even better.

Business Services also plays a key role in restructuring and lowering the Group's cost base and manages a sizeable, and in some areas long overdue, investment programme. During 2009, Business Services was able to fund new technology and property investments from increased efficiencies and synergies generated from across the Group. Business Services is reducing its headcount by 9,000 over the period 2009-2010, intensively working with employees and various internal stakeholders, including unions and social partners. By providing our people with active support throughout the process, we have been able to limit the number of compulsory redundancies.

Bruce Van Saun, Group Finance Director

For biographies **see pages 8-11**


In 2009, we embarked on a comprehensive 'Lean' review of all of our processes in Business Services. That is now driving one of the biggest customer focused efficiency programmes ever delivered in RBS. Lean teams assess the nuts and bolts of our business, and identify and implement opportunities to eliminate wasteful processes, continually focusing on how we can improve our service to our customers. We have embedded Lean thinking in how our people work.

Intelligent Working was another key programme in Business Services in 2009, looking at how we employ people, technology and property in a way that makes best use of our assets and at the same time improves the quality and efficiency of our services. So far, globally, we have removed nearly 40,000 square metres of office space, equivalent to five Wembley football pitches.

Business Services also operates well-established and high quality transaction processing and technology hubs in India and Poland. The Indian operations hub is a shared service, which supports our major businesses in the UK, USA, Asia and Europe. Capabilities include investment banking, trade and payments, retail, corporate and mortgage back office operations, and technology development functions. Centralising these capabilities, creating centres of expertise and deploying 'Lean' techniques allows us to increase the efficiency of the bank whilst at the same time improving the customer experience.

In Technology Services, state-of-the-art but proven technologies such as desktop virtualisation, IP networking and data centre consolidation are used to restructure the cost base whilst developing improved levels of agility and flexibility. During the year, we consolidated the Chicago based data centre functions (trade and international payment systems) into the core data centres in Edinburgh. More than 17 million payments a day and 4.3 billion payments annually now pass through Edinburgh. By relocating this work, we increased utilisation of our existing data centre capability and generated economies of up to £100 million a year of cost savings.

2009 was an intensive year of delivering real change globally in Business Services, creating new ways of working to improve the service to our customers. The focus on customers, delivery, collaboration, investment and empowering our people, gives us strong foundation stones on which to build.

## Central Functions

### Risk

We have made significant progress to meet the post Walker Review requirements for an independent risk function within banks. A Board Risk Committee made up of non-executive directors is now in place. We have agreed a revised structure for risk management which will strengthen areas identified as weaknesses in recent years. These include functional reporting for the risk function, the appointment of a Deputy Chief Risk Officer, a Head of Firm Wide Risk and a Global Head of Market Risk, as well as a Chief Administrative Officer. We have created a new post of Head of Operational Risk which recognises the additional execution risk associated with the delivery of one of the largest restructurings ever undertaken by a bank globally.

### Finance

Greater transparency and openness are as essential to the Group's journey towards self-sufficiency and regaining investor confidence. During 2009, we began to deliver highly detailed, quarterly interim management statements. Analysts and investors have welcomed our increased disclosure.

### Human Resources

To help align our executives' contribution to delivering our strategic plans and meet new regulatory requirements, we developed and implemented a new Executive Performance Assessment (EPA) framework. The framework is a balanced scorecard approach and focused on the five key areas of Strategic Progress, Business Delivery and Financial Performance, Customers' Expectations, Risk, Efficiency and Control and People Management.

The EPA framework is designed substantially to improve the quality of our Executive's objectives and Personal Development Plans.

### Group Strategy

Our Group Strategy team supports the Chief Executive and the Executive Committee in the development of the Group's strategy. Its objective is to ensure that the Group has the right portfolio of businesses, active in the right markets, supported by the appropriate allocation of capital and other resources.

### Group Communications

Our Group Communications team manages our relationships with external stakeholders and makes sure we keep our employees informed about developments in the business. RBS wants to be more open to stakeholders than we were in the past and during the year Group Communications helped elected officials, commentators and others to gain a better understanding of our business and how we plan to return to self-sufficiency.

Non-Core Division manages separately assets that the Group intends to run off or dispose. The Division contains a range of businesses and asset portfolios primarily from GBM, including RBS Sempra Commodities, linked to proprietary trading, higher risk profile asset portfolios including excess risk concentrations, and other illiquid portfolios. It also includes a number of portfolios and businesses, including regional markets businesses, that the Group has concluded are no longer strategic.

| | 2009 £m | 2008 £m |
|---|---|---|
| Net interest income from banking activities | 1,534 | 2,156 |
| Non-interest income | (3,835) | (5,188) |
| Total income | (2,301) | (3,032) |
| Expenses | (2,447) | (2,683) |
| Operating loss before other operating charges & impairment losses | (4,748) | (5,715) |
| Insurance net claims | (588) | (700) |
| Impairment losses | (9,221) | (4,936) |
| Operating loss | (14,557) | (11,351) |
| Risk-weighted assets (bn) | 171.3bn | 170.9bn |
| Net interest margin | 0.69% | 0.87% |
| Cost:income ratio | (106.3%) | (88.5%) |
| Loan:deposit ratio | 1,121% | 683% |

£56.9 billion

**decline in Third Party Assets, excluding derivatives**

£12.6 billion

**of disposals during the year**

Nathan Bostock
Head of
Restructuring & Risk

For biographies **see pages 8-11**

## Our Non-Core Division is central to the strategy that will return RBS to self-sufficiency.

On the one hand, it is managing assets that are no longer core to our strategy and the continuing operations of RBS, and which we plan to sell or to run down. On the other, partly because Non-Core will reduce the asset side of our balance sheet, it will improve our funding position and make RBS a safer bank. Non-Core Division was created to facilitate the re-shaping of RBS on its journey to self-sufficiency and is responsible for one of the largest bank restructurings being undertaken globally and one of the largest in history.

The Asset Protection Scheme (APS) is also vital to our plans. It is a credit protection scheme. It gives us protection, similar to an insurance policy, against future losses in the event that the economy enters a further, severe and prolonged downturn.

We manage Non-Core & APS together, under the leadership of Nathan Bostock and Rory Cullinan, who joined us during the year.

We have structured Non-Core Division & APS into three key business areas.

- Portfolio & Banking is responsible for the wholesale banking assets transferred from GBM and accounts for the largest percentage of the assets in Non-Core.

- International Businesses & Portfolios manages assets and includes the retail and commercial businesses identified as non-core, the countries we are exiting to reduce our geographic footprint, and portfolios primarily transferred from our UK Corporate Banking Division, Ulster Bank and Citizens. It is the largest employer in the division with almost 13,000 employees globally.

- Non-Core Markets includes trading assets from GBM, principally our exotic credit derivatives, monoline and asset-backed securities positions and is responsible for the most volatile assets placed in Non-Core Division.

In addition, we have a small number of standalone businesses, such as Aviation Capital.


Did you know?

3,000

We delivered training to more than 3,000 employees around the globe about the APS

The key measures of success for our Division are our ability to manage down Third Party Assets (TPAs) and Risk Weighted Assets (RWAs), while reducing our trading and credit losses through robust risk management and credit stewardship as well as managing asset disposals efficiently.

During 2009, we made an encouraging start in reducing TPAs. RWAs remained broadly flat over the year. The downgrade in monolines and credit derivative product companies (CPDCs) and the impact of pro-cyclicality – tougher economic conditions can increase the amount of capital we have to assign to a loan – partly offset our active management and runoff of RWAs.

Impairments increased relative to 2008 reflecting where we are in the economic cycle. However, we saw the level of impairments steadily decrease in three successive quarters to the end of 2009.

Our disposal programme developed momentum during 2009. We successfully completed a number of asset sales in the year, including the RBS equity stakes in Bank of China and Linea Directa, the sale to ANZ of the Retail & Commercial and wholesale banking businesses in non-core businesses in six countries in Asia, as well as the sale to Aberdeen Asset Management of our Asset Management business.

While our focus is on the successful run down of assets, close and responsible stewardship of these assets over the next four years will be key to maintaining their value, pending run-off or exit. This requires a high level of focus on business-as-usual challenges in a difficult economic and market environment that and against the background of a rapidly evolving regulatory environment.

The nature of the assets placed in Non-Core Division & APS creates a very high concentration of risk in one area of the group and managing the risk associated with this is a key priority. Our key risk is the credit risk resulting from the higher probability of default of the assets we are managing. We also have significant execution risk associated with the scale of the restructuring we are undertaking and the disposal of assets in the prevailing environment. Finally, we have to manage the high level of operational risk which naturally arises when businesses are being sold and staff face considerable uncertainty about their future.

Participation in the UK Government's APS provided RBS with a capital injection of £25.5 billion and catastrophe insurance for the riskiest assets we currently hold on our balance sheet in the event of a prolonged economic downturn. The progress we have made against our strategic plan, as well as improvements in financial markets and the economic outlook, mean we do not anticipate claiming under the scheme. However, this insurance provides us with financial strength in the event of major economic and market stress and gives us the confidence we need to navigate the years ahead.

Under the lighter touch terms agreed with the UK Government in November 2009, RBS would bear the first £60 billion of losses and the Treasury would bear 90% of losses thereafter. The fee for this insurance will be £700 million for the first three years and then £500 million annually. The new terms allow RBS to exit the APS at any time subject to meeting capital adequacy requirements and repaying the Treasury for any shortfall in fees due.

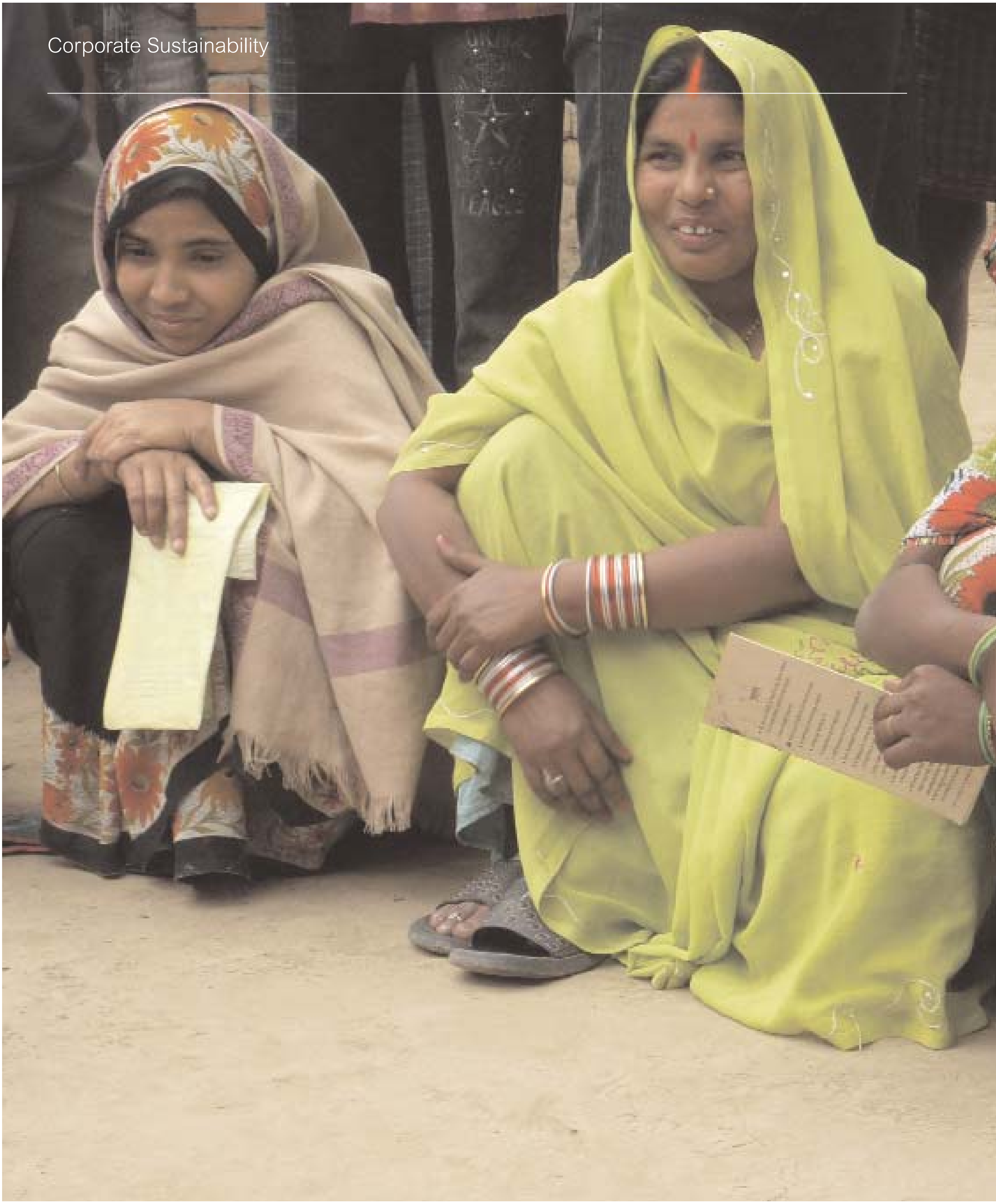
Non-Core Division was also responsible for setting up APS. The task of setting up the governance and controls, training and equipping staff in order to implement the scheme was an exceptional achievement. We delivered training to more than 3,000 employees across the globe.

We continue to work closely with the Treasury and the newly formed Asset Protection Agency in developing our approach to the day-to-day stewardship of the APS assets, and the appropriate governance to ensure compliance.

We have devoted a million person hours to agreeing APS and its rules, identifying and defining the four million assets covered, training and equipping our people, and setting up a robust infrastructure for the stewardship of these assets.

### Global Restructuring Group

Our Global Restructuring Group is responsible for supporting our customers through business and financial restructuring when they are facing difficulties during the current economic downturn. To meet increased demand GRG has significantly increased its resourcing levels, more than doubling staffing levels across the year, especially its regional presence across the UK, and this trend is expected to continue in 2010. Its primary aim is to return our customers to sound financial health and to the core divisions within RBS they originated from. During 2009 over 800 UK based small to medium sized businesses were restructured safeguarding the future of several thousand jobs and GRG is currently acting as either lead or coordinator in around 140 restructurings globally.





# Sustainability sits at the heart of how we aim to do business.

"Sustainability is not just about the many responsibilities and obligations that we have as a company, but about specific issues which we need to address to ensure that we have a healthy and respected business operating on a sustainable basis, in every sense of the word."

**Philip Hampton**, Chairman

Corporate Sustainability is the catch-all phrase that we use to describe our efforts to address a range of issues that relate to our broader impact on society. This section outlines the key developments in this important area of our business in 2009, based around five key themes:

- **Fair banking**
- **Supporting enterprise**
- **Employee engagement**
- **Safety and security**
- **Global citizenship**

**Microfinance lending programme in India**

Our Technical Assistance programme has extended the reach of Microfinance to an additional 114,000 households in India.

## What is Corporate Sustainability and why does it matter?

We have always aimed to ensure that our business has a positive impact on society and that we support the communities in which we operate. Our difficulties in recent years now mean that it is more important than ever for us to demonstrate this. Given the public investment in RBS, there is considerable scrutiny – understandably – of how we manage issues such as treating customers fairly, support for enterprise, job losses, and our impact on the environment. Whilst we are able to build on many years of good work in areas such as financial education, we recognise that there is always more we can do, and that we need to work hard to rebuild trust in our business.

## Our approach

To increase the profile of sustainability across our business and enhance the governance of our strategy, we have established a new Group Corporate Sustainability Committee, which is chaired by Sandy Crombie, and has representation from our key business areas. It meets at least twice a year and oversees our approach to sustainability throughout the Group.

We are focusing our work on five key themes, which we know from ongoing consultation to be of particular importance to our many stakeholders.

- **Fair banking**
- **Supporting enterprise**
- **Employee engagement**
- **Safety and security**
- **Global citizenship**

First and foremost, we drive action on these themes through the day-to-day work of our business units, to ensure that we are operating on a socially sustainable basis. Over the next few pages, we outline what that means in practice, with a selection of examples for each of our five themes of sustainability.

In some areas, however, we believe we should go beyond what we achieve in our business units. Alongside our day-to-day activities, we have established a number of dedicated programmes that we back up with additional resources – see page 47 for more details on our Community Investment programme.

## Sustainability in practice: day-to-day examples across the five key themes

### Fair banking

We are committed to developing customer relationships that last. There are four key strands to doing this: responsible lending practices; customer service; financial education; and financial inclusion.

**Responsible lending practices**

Responsible lending continued to be a top priority for all stakeholders during 2009 and key issues were the availability and affordability of credit and support for customers in financial difficulty.

- In July 2009, we voluntarily extended the credit card 30 Day Breathing Space commitment to all NatWest and RBS unsecured personal loans and overdrafts, which provides time for customers struggling to make their regular repayments to receive money advice and consider their options.
- We launched a unique on-line tool which is designed to encourage customers to save. Launched in December 2009, the tool allows customers to work out a savings plan for their specific goal and shows customers the progress made and if they are saving enough.
- We made a series of reductions to charges and fees for unarranged borrowing. The fee for returning a cheque, direct debit or standing order was reduced to £5. The fee for paying an item when overdrawn was cut by half to £15 per day.

**Customer service**

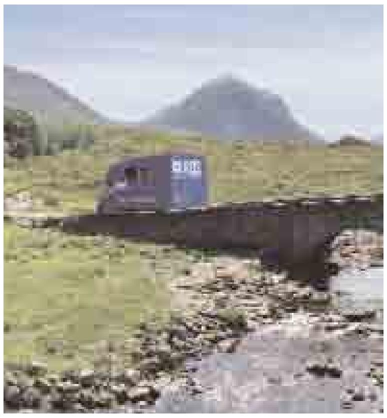
We have listened to our customers' views and we are making significant changes to ensure that customers are always put first.

- We will launch a Customer Charter in 2010 that makes clear commitments to our customers about how we will deal with them to deliver 'helpful banking' and how we will support the communities we serve.
- In August 2009 we commenced a programme to replace all Maestro, Solo and Laser debit cards with Visa Debit cards. Customers are benefiting from a higher level of purchase protection.

Did you know?

60%

The share of UK secondary schools where our MoneySense for Schools programme had a presence in 2009.



- We launched the UK's first mobile phone banking application for the iPhone for NatWest, RBS and Ulster Bank (Northern Ireland). Thousands of customers already use mobile phone banking to check their balance directly from their mobile handset and this is the next step to develop this service.

### Financial education

Understanding how financial products and services work is an important life skill for anybody – we want everyone to have the confidence to make the right financial decisions.

- Our award-winning MoneySense programme was extended to ensure that everyone has access to sound and impartial money guidance. In 2009, MoneySense for Schools had a presence in nearly 60% of UK secondary schools.
- We launched YouthBank MoneySense in Ireland through Ulster Bank, with a €150,000 financial learning fund provided as part of the initiative.
- The Citizens Charitable Foundation provided approximately $1 million to support more than 300 financial literacy initiatives throughout our footprint in America.

### Financial inclusion

Ensuring that everyone has access to financial services has long been a priority of The RBS Group.

- In 2009, numerous communities were impacted by unprecedented flooding and we took immediate action to send mobile banks so that customers had continued access to banking services.
- We announced a £5 million loan fund, ring-fenced to support third sector providers of affordable credit to help individuals.
- We are working with the Government to deliver the Saving Gateway scheme in 2010, aimed at helping people on low incomes and benefits develop a savings habit.
- In Ireland, we extended our offering to first-time home buyers by teaming up with Habitat for Humanity. This programme offers customers with a housing need the opportunity to step on the property ladder in an affordable manner.

## Supporting enterprise

This covers how we help businesses get started, how we support those who get into difficulty, our investment in social enterprise and our Microfinance programme.

- In November 2009, we launched a Customer Charter for small and medium-sized enterprises, which focused on four key areas: helping businesses to start and grow; providing access to finance; fairness and transparency on pricing; and transparency when making lending decisions.
- Through Coutts Wealth Management, we have one of the largest networks of successful entrepreneurs in the UK and, in 2009, Coutts launched a programme to support clients who would like to get more involved and make a significant impact in the social enterprise sector.
- In 2009, 46 RBS group employees provided direct support to young entrepreneurs across Scotland either as volunteer Panel Members or Aftercare Advisers with the Prince's Scottish Youth Business Trust.
- Our Microfinance lending programme in India continues to go from strength to strength. Widening financial access for more than two million households in rural areas relying on robust and creditworthy Microfinance Institutions (MFIs) as a distribution network.

## Employee engagement

The engagement of our employees depends on giving our people an environment at work that encourages them to go the extra mile for our customers. It is influenced by how we recruit, motivate and support our people, focusing on issues such as diversity, training and reward.

- Remuneration is one of the most challenging issues that RBS currently faces, and one which has a significant impact on employee engagement. In response to this, we have revised our reward framework. For more information on this, please see the letter from the Chairman of the Remuneration Committee.


**Did you know?**

2.5 million

The number of customers who downloaded Rapport, a fraud prevention software package we introduced in 2009, free of charge.

- We continue to achieve a strong response rate for our annual Employee Opinion Survey (87% in September 2009), and use the results to identify where we need to invest more time and energy to create a positive employment experience. Although our 2009 results demonstrated our employees' resilience in areas like customer focus and efficiency, responses around security and engagement decreased. We responded to this by launching a number of initiatives to engage and develop our staff across the Group.

- To improve opportunities for all groups of employees, a Group diversity and inclusion programme was launched in 2009 to deliver industry-leading performance. The programme is supported and enabled by our internal networks, Focussed Women Network, and Rainbow, both of which aim to inspire, lead, coach, motivate and create opportunities to fulfil employees' potential.

- To equip the senior employees of the Group to understand, execute and sustain the strategic business plan, a new Leadership Development Programme has been launched. In addition, we launched the Harvard Business Publishing Online product across the Group, tailored for the use of all employees.

## Safety and security

We are committed to making banking safer and our ongoing investment in new security and technology continuously works towards this goal. We also ensure that a safe and secure environment is provided for our staff.

- To enhance online security for our customers, we launched a fraud prevention software package free of charge for anyone who banks online with RBS or NatWest. Since January 2009, Rapport has been downloaded by over 2.5 million customers.

- In 2009, we rolled out a 'Safer Banking' brochure in branches throughout the UK, outlining the possible risks of financial crime as well as fraud prevention tactics.

- Customers can also subscribe for real time SMS alerts regarding customer deposits and credit card accounts, enabling customers to keep track of their debit and credit card transactions.

- We increased controls that protect customer information by completing a global assurance review of more than 800 of our high-risk third parties in 2009, agreeing actions to manage identified risks.

- Ensuring the safety, health and wellbeing of employees is core to our business. In 2009, we updated the Group's Safety and Health policy standard to reflect our commitment to the safety and health of our people in every country in which we operate.

## Global citizenship

Global citizenship means taking responsibility for how we manage our wider economic, social and environmental impact on society. Environmental sustainability and responsible lending are key elements of this.

### Environmental sustainability

The transition to a low carbon society has already begun and we take seriously our role in supporting this transition. We set our environmental strategy through the Executive-led Environment Working Group, which has representation from all relevant Divisions and reports to the Group Sustainability Committee.

- We have developed a strong focus on providing financial services to clients and projects operating in the renewable power and energy efficiency sectors. In late 2009, we were confirmed as one of the three UK banks to take part in the European Investment Bank scheme to lend to onshore wind projects.

- In late 2009, we signed the Copenhagen Communiqué, a collective statement from businesses that called for an agreement between countries that would give them the confidence to invest in solutions to climate change.

- We continue our work to reduce the impacts of our own operations, covering energy consumption, $CO_2$ emissions, travel, water and paper use. In the UK and Ireland, we procure 92% of our contracted electricity from renewable sources and our default office paper has 80% recycled content.

- We maintained strong performance in external indices that measure sustainability performance and in 2009 we scored 77% in the Carbon Disclosure Project and were included in the Dow Jones Sustainability Index with a score of 76%.

**Did you know?**

2,500

The number of employees engaged by Fairbridge, a charity that works with young people in some of the most disadvantaged areas in the UK.


### Responsible lending

We provide financial services to a number of large global companies who have operations in areas with potentially high environmental and social risks. We provide services only to those whose operations meet all necessary legal requirements and standards set by the relevant regulatory bodies, and comply with our own environmental, social and ethical (ESE) risk guidance.

In late 2009, we began a process of reviewing the policies and procedures we apply to our lending decisions with regard to ESE risk issues. These policies are aimed at higher risk sectors in which the bank conducts business, such as oil and gas, and mining and metals. The ESE Risk Policy Framework will further strengthen the process of ensuring these issues are taken into consideration in lending and credit provision decisions.

## Community Investment

### Helping to rebuild our reputation

The role of Community Investment is to deliver programmes that help to rebuild the reputation of the Group as a responsible business that has a sustainable impact upon the communities in which we operate. To ensure we make our community investments as effective as possible we focus our resources on a small number of substantial strategic programmes. These programmes centre around issues which are important to our businesses and important to our reputation. They complement the day-to-day activities of our businesses, but enable the Group to go further on key issues where we believe we have a role and responsibility to do so. By targeting additional resources through these programmes, we can make a greater difference to the communities in which we operate.

Our Group Community Investment programmes relate broadly to financial education, supporting enterprise and Microfinance and the charitable endeavours of our employees. In addition to these core programmes, we run a broad range of other community investment activities across our businesses. Altogether, we invest more than £63 million a year in the communities we serve.

### MoneySense

Financial education is a key issue under our theme of Fair Banking. The aim of MoneySense is to increase financial capability and financial inclusion. A core part of this programme is MoneySense for Schools, where RBS employees deliver lessons in secondary schools designed to help young people to manage their money; we provide resources for teachers to do the same. In 2009, over 700 RBS employees delivered MoneySense lessons and over one-third of a million pupils were reached by the programme. MoneySense for Adults offers impartial guidance on money management through our MoneySense websites, which receive over 60,000 visitors every month. We also have a range of partnerships with third sector organisations where we can target support at vulnerable groups, for example, supporting single-parent families through Gingerbread.

### Supporting enterprise and Microfinance

We are currently building a new Community Investment programme under the theme of Supporting Enterprise that will significantly enhance our support for small businesses beyond our mainstream banking activities. For example, in the UK, we are a Platinum Patron of The Prince's Trust. Our support is focused on the Trust's Business Programme, which helps young people from disadvantaged backgrounds to explore their business ideas and provides access to advice, loan funding and the support of a business mentor, including our employees, when starting up an enterprise. The Business Programme has helped over 70,000 young people since its inception. In India, our RBS Foundation works in partnership with third-parties to provide technical assistance to emerging microfinance institutions in under-served areas and to promote new economic opportunities for vulnerable communities. Our 48 projects to date have helped more than 178,000 poor households across India.

### The charitable endeavours of our employees

Under the theme of Employee Engagement, we support the charitable endeavours of our colleagues. We do this in three ways. First, we match the donations they make to charity via their salary. Second, we make cash grants to the causes they give their time to, either as volunteers or fundraisers. By directing our resources in this way we support around 3,800 charities and good causes around the world. Third, we run a sizeable employee volunteering programme, where we encourage employees to participate in team-building opportunities during work time, in partnership with a range of charities. For example, over the last five years our partnership with Fairbridge, a charity that works with young people in some of the most disadvantaged areas of the UK, has engaged over 2,500 RBS employees. In total, more than 50,000 RBS employees give their skills, time and money to make a difference in the communities that we operate in. The Group supports those efforts financially and by giving employees almost 155,000 hours off work to volunteer each year.

# Directors' report and summary financial statement



Contents

> "We strive to achieve high standards of corporate governance and the principles of good governance are embedded throughout our culture, the people and the systems we employ."

Philip Hampton, Chairman

## Does RBS comply with key corporate governance standards?

The company is committed to high standards of corporate governance, business integrity and professionalism in all its activities. The company supports and has engaged fully with the review of governance in banks and financial institutions undertaken by Sir David Walker and has taken various steps to implement the recommendations of the Walker review.

Throughout 2009, the company has complied with all of the provisions of the Combined Code (the Code) except in relation to the provision that the Remuneration Committee should have delegated responsibility for setting remuneration for the Chairman and executive directors. The company considers that this is a matter which should rightly be reserved for the Board. From 6 February 2009, until the appointment of Sandy Crombie on 1 June 2009 the company did not have a senior independent director. Following Sandy Crombie's appointment to the Remuneration Committee on 4 August 2009, when the chairman stepped down, the company has been compliant with the Combined Code.

The company has also complied with the Financial Reporting Council Guidance on Audit Committees issued in October 2008 in all material respects.

Under the US Sarbanes-Oxley Act of 2002 (the Act), specific standards of corporate governance and business and financial disclosures apply to companies with securities registered in the US. The company complies with all applicable sections of the Act.

## How has the structure of the Board changed?

During the last year, a major restructure of the Board has taken place. This began in January 2009 with the appointment of Philip Hampton as a director and Chairman-designate. He was subsequently appointed as Chairman on 3 February 2009. Guy Whittaker stepped down as Finance Director on 30 September 2009 and was replaced by Bruce Van Saun on 1 October 2009.

There have also been changes to the non-executive directors on the Board. During 2009, seven non-executive directors left the Board and three new non-executive directors were appointed. Sandy Crombie joined the Board as Senior Independent Director on 1 June 2009. Philip Scott and Penny Hughes joined the Board on 1 November 2009 and 1 January 2010 respectively. Sandy, Philip and Penny each have extensive board level experience.

Further Board changes are planned for 2010. Gordon Pell, Deputy Group Chief Executive, will retire from the Group on 31 March 2010 and Archie Hunter, Chairman of the Group Audit Committee will stand down from the Board following the Annual General Meeting in April. The search for a new non-executive director to succeed Archie Hunter as Chairman of the Audit Committee is well advanced.

### Successful governance starts at the top.

The Board is the main decision-making forum for the company. It has overall responsibility for management of the business and affairs of the Group, the establishment of Group strategy and capital raising and allocation, and is accountable to shareholders for financial and operational performance. The Board considers strategic issues and ensures the Group manages risk effectively through approving and monitoring the Group's risk appetite, considering Group stress scenarios and agreed mitigants and identifying longer term strategic threats to the Group's business operations. The Board has a formal schedule of matters detailing key aspects of the company's affairs reserved to it for its decision. This schedule is reviewed annually.

In order to provide effective oversight and leadership, the Board has established a number of Board Committees with particular responsibilities. In accordance with the recommendations of the Walker review, the company has established a Board Risk Committee to advise the Board on risk issues.

The roles of Chairman and Group Chief Executive are distinct and separate, with a clear division of responsibilities. The Chairman leads the Board and ensures the effective engagement and contribution of all executive and non-executive directors. The Group Chief Executive has responsibility for all Group businesses and acts in accordance with the authority delegated by the Board. Responsibility for the development of policy and strategy and operational management is delegated to the Group Chief Executive and other executive directors.

All directors participate in discussing strategy, performance and the financial and risk management of the company. Meetings of the Board are structured to allow open discussion.

### How many of the directors are independent?

The Board currently comprises the Chairman, three executive directors and eight independent non-executive directors. The non-executive directors combine broad business and commercial experience with independent and objective judgement. The balance between non-executive and executive directors enables the Board to provide clear and effective leadership and maintain the highest standards of integrity across the company's business activities.

### How often are directors re-elected?

In accordance with the company's Articles of Association and the Code, directors must stand for re-election by shareholders at least once every three years. Any non-executive directors who have served for more than nine years will also stand for annual re-election and the Board will consider their independence at that time. The Chairman has offered to stand for re-election annually, with effect from 2010, in line with the recommendations of the Walker review.

### How do the directors get the information they need to fulfil their roles properly?

All directors receive accurate, timely and clear information on all relevant matters, and have access to the advice and services of the Group General Counsel and Group Secretary who is responsible to the Board for ensuring that Board procedures are followed and that applicable rules and regulations are complied with. In addition, all directors are able, if necessary, to obtain independent professional advice at the company's expense.

## What is the role of the Board Committees?

**The Group Audit Committee** comprises four independent non-executive directors, one of whom is Chairman of the Board Risk Committee. It is responsible for assisting the Board in carrying out its responsibilities relating to accounting policies, internal control and financial reporting functions.

**The Board Risk Committee** is comprised of five independent non-executive directors, one of whom is the Chairman of the Audit Committee. It is responsible for providing oversight and advice to the Board in relation to current and potential future risk exposures of the Group and future risk strategy including determination of risk appetite and tolerance, promoting a risk awareness culture within the Group, reporting to the Board, as well as identifying any matters within its remit in respect of which it considers that action or improvement is needed and making recommendations as to the steps to be taken.

**The Group Remuneration Committee** is responsible for the overview of the Group's policy on remuneration, as well as considering executive remuneration and, as required, making recommendations to the Group Board in respect of the remuneration arrangements of the executive directors of the Group. It is also responsible for setting the remuneration arrangements of the Executive Committee and Management Committee and any employees falling within the definition of principle 8 of the FSA Code. The Group Remuneration Committee comprises four independent non-executive directors.

**The Group Nominations Committee** comprises all the independent non-executive directors, under the Chairmanship of the Chairman of the Board. It is responsible for assisting the Board in the formal section and appointment of directors and succession planning, having regard to the overall balance of skills, knowledge and experience on the Board.

**The Group Corporate Sustainability Committee** is chaired by the Senior Independent Director and attended by the Chairman and members of the Group executive and senior management. It reports into the Board and is responsible for setting and reviewing the Group's overall sustainability strategy, values and policies.

Each new director receives a formal induction on joining the Board, including visits to the Group's major businesses and meetings with directors and senior management. The induction is tailored to the director's specific requirements. Directors are advised of appropriate training and professional development opportunities and undertake the training and professional development they consider necessary in assisting them to carry out their duties as a director.

In line with recommendations of the Walker review, the company is currently undertaking a comprehensive review of its Board induction and continuing development programme for directors. As a result, the induction programme has recently been expanded to include sessions with external advisers and auditors, as well as senior management in business areas.

### How often does the Board meet?

There were ten scheduled Board meetings during 2009. The directors were supplied with comprehensive papers in advance of each meeting covering the Group's principal business activities. The Group Chief Executive provides a written report on business activities at each Board meeting. Members of executive management attend and make regular presentations at meetings of the Board. In addition to the scheduled meetings, there were 39 ad-hoc meetings of the Board and Committees of the Board, which were attended by the majority of directors, indicating the commitment of the directors to making time available to fulfil their duties.

### How does the Board review its performance?

The Board reviews its performance annually. Following the Board evaluation last year, a number of initiatives were implemented in 2009 aimed at improving the overall performance and effectiveness of the Board. These included further Board appointments, restructuring Board agendas and papers and allowing more time at Board meetings to consider strategic issues. In addition, reporting to the Board on risk issues, capital, liquidity and funding was enhanced.

In 2009, the Board again undertook a formal and rigorous evaluation of its performance and that of its Committees and individual directors. This process was independently facilitated by Spencer Stuart, and covered the role and organisation of the Board and its Committees, Board composition and membership of Committees, Board processes, the structure and frequency of meetings, Board and Committee reporting, and external relationships including those with shareholders and regulators. The Board has considered and discussed reports on the outcomes of the evaluations and is satisfied with the way in which the evaluations have been conducted.

The evaluation concluded that the Board is operating effectively and has benefited from the reduction in size and changes in composition which have been successfully implemented during 2009. The composition of the Board and membership of principal Committees, along with the shape of Board agendas and meeting formats are under continual review to build on this and further increase effectiveness. The separation of responsibilities between the Group Audit Committee and the newly-formed Board Risk Committee to meet the recommendations of the Walker review will assist the Group in enhancing its focus on risk management as a whole and continuing to improve on areas such as risk analysis and risk reporting.

# Letter from the Chairman of the Remuneration Committee

**Dear shareholder,**
Remuneration is one of the most challenging issues currently facing RBS. The Remuneration Committee has sought to reflect public sentiment on this issue and the Group's results, balanced with the need to remain competitive and retain individuals that are central to the future success of the Group. We are especially conscious of the public hostility to some of the higher levels of banking pay and the special scrutiny in such cases as RBS which is reporting an overall loss. We are trying to react to this responsibly, but if the staff needed to restore the Group's fortunes feel they will be treated worse than at competitors, we will fail to retain or recruit and thereby fail in our turnaround goals for RBS. Those responsible for the major failings have left. Our remaining staff are performing well in profitable businesses or engaged in the challenging task of turning around our more difficult legacy cases.

The principles I outlined to you in my letter last year connected the long-term interests of shareholders and customers with the performance of staff. These principles were the beginning of a fundamental reform of remuneration within the Group. During 2009, a thorough review of remuneration policies, processes and governance at RBS was undertaken. We have committed to positioning the Group at the leading edge of the financial services sector reform of remuneration and the changes we are making will help us reach this position. The framework the Remuneration Committee has established has strengthened both the performance management processes and the link between risk and reward. The basis of the framework is:

- a performance management process which ensures all employees know what is expected of them and includes a rigorous review of their achievements;

- pay for performance – all annual and longer term awards are subject to challenging and measurable performance criteria directly linked to the Group's strategic plan;

- deferral – a significant proportion of annual awards are deferred and longer term awards are subject to a three year performance period;

- clawback – awards can be subject to clawback and may be withheld if the results later turn out not to reflect sustained longer term performance; and

- use of shares for bonuses to align interests of employees with shareholders.

The Remuneration Committee appreciates that this has been another difficult year for our staff and their families as we restructure the business. The reality is that it is the hard work of our staff over many years that has resulted in a core set of resilient and valuable businesses that will drive our recovery. The performance of the core business remains strong due to the incredible focus our employees have maintained on our customers. It is for that reason we continue to create an environment in which our staff can meet their ambitions as we work with them to restore and then transform the Group into one of the world's most admired, valued and stable banks.

The Remuneration Committee is acutely aware of the additional responsibilities it carries as a consequence of the support RBS has received from the UK Government. RBS fully intends to be a responsible steward of this investment. The Board believes that pay must be both appropriately restrained but commercial and fair. Our plans take account of the need for a careful balance to be struck reflecting competitor positions, the UK bonus tax, the overall results of RBS and the capital support the Group has received.

The Remuneration Committee reviewed remuneration policies, processes and practices across the Group to ensure that they support the strategic goals of RBS which are to serve institutions well, to return to standalone strength, to return shareholder value, and to reflect best practice and regulatory requirements. We have taken into account the recommendations on remuneration made by the G20, the FSA and the Walker review and we are working towards implementation. The Remuneration Committee very much hopes that the implementation of these recommendations creates a level playing field for all banks internationally. We cannot set remuneration policy in isolation as to do so would neither reflect the competitive environment nor enable us to attract and retain employees of the calibre necessary to rebuild the Group and deliver long-term shareholder value.

During the year, the Remuneration Committee's activities have focused on:

- ensuring that the Group's remuneration policies, procedures and practices are effective and promote the highest possible standards of risk management;

- designing policies to ensure that remuneration is appropriately competitive in the markets, sectors and geographies in which RBS operates, and is related to individual, business unit and Group performance;

- strengthening the link between remuneration and risk taken and taking advice from the newly-formed Board Risk Committee;

- developing and implementing a rigorous approach to performance management, using appropriate risk-adjusted performance measures and taking into account the full costs and capital allocated to individual businesses;

- reviewing the remuneration of employees who have a material impact on Group performance. This includes new processes for reviewing remuneration for newly recruited senior individuals, who are critical to the long-term success of RBS; and

- reviewing and providing a strategic overview of all bonus and long-term incentive plans operating in RBS to ensure their compliance with shareholder interests, best industry practice and the requirements of the FSA's Code of Practice on Remuneration.

The outcome of the Remuneration Committee's review has included:

- a clear governance framework for incentive plans across the Group, involving the Risk and HR functions at all key decision points;
- a structure of deferment for incentives for up to three years, with the ability to claw back any that are shown to have been based on misstated or misleading results;
- agreement with the Group's major shareholder, UKFI, on the overall level of bonuses in respect of 2009 performance and the arrangements for their deferment in stages to 2012; and
- a new long term incentive plan which is being submitted to shareholders for approval at the Annual General Meeting following a comprehensive consultation with major institutional shareholders. This plan includes a new approach to performance measures to ensure that awards vest only if the Remuneration Committee is satisfied that the performance achieved is in line with the Board's risk policies and that a balanced performance has been achieved across a number of risk adjusted metrics.

During the year the terms of reference of the Remuneration Committee were broadened to include oversight of remuneration policies for all employees across the Group. To reflect its work, the report of the Remuneration Committee contains not only information on executive remuneration, but also a statement of the remuneration policies which will apply across the whole of the Group's activities.

The remuneration environment is evolving and while I acknowledge there is still more work to be done, we have already made significant changes and continue to be one of the leaders in the sector in the reform of our remuneration policies. The Remuneration Committee has made significant progress in overseeing the development of policies, processes and practices that will ensure that employee remuneration at RBS is properly controlled and fully aligns sustainable performance with the long term interests of shareholders and customers.

Colin A. M. Buchan
Chairman of the Remuneration Committee
24 February 2010

# Summary remuneration report

### Executive remuneration policy
### Components of executive directors' remuneration 2010
### Salary

Base salaries of executive directors are reviewed annually. It has been agreed that no increases in base salaries will be made as part of the 2010 review.

### Benefits

Executive directors are eligible to receive various employee benefits or a cash equivalent from a flexible benefits account, on a similar basis to other employees. Executive directors also receive death-in-service cover.

For all executive directors joining on or after 1 October 2006, pension provision is in the form of a pension allowance which may be used to participate in The Royal Bank of Scotland Group Defined Contribution Pension Fund which is open to all employees, or to invest in alternative pension arrangements, or to take all or some of the allowance in cash. In addition, as employees, executive directors are eligible to participate in Sharesave and Buy As You Earn Plans. These plans are not subject to performance conditions since they are operated on an all-employee basis.

The 2008 Report and Accounts reported on the pension paid to the former Group Chief Executive, Sir Fred Goodwin, on his retirement from the Group on 31 January 2009. Following discussions between Sir Fred and the Group, he volunteered to make a substantial reduction to his pension to the level of £342,500 a year.

Gordon Pell will retire from the Group and the Board on 31 March 2010, shortly after his normal pension age of 60. As agreed by the Board in 2005 his pension is based on his 39 years of service with Lloyds TSB and the Group, part of which has been funded by a transfer payment from a Lloyds TSB pension plan.

### Annual incentives

Annual incentives awarded to executive directors in respect of 2009 performance will be granted under the terms of the new deferral plan which was approved by shareholders in December 2009. In respect of 2009, the Remuneration Committee reviewed the annual incentive payments for executive directors, taking into account performance against targets for the year and targets relating to the strategic plan. As a result, the Remuneration Committee proposed annual incentive payments for Stephen Hester, Gordon Pell and Bruce Van Saun.

The Group Chief Executive, Stephen Hester has declined his annual performance bonus for 2009 in the light of the public controversy currently prevailing on pay and the potential impediment taking such an award might have on support for the RBS turnaround which he was hired 14 months ago to lead. The Remuneration Committee considers that Stephen significantly outperformed the targets he was set for 2009 and intended to award a bonus commensurate with that view. In the light of Stephen's request but mindful of the importance of the turnaround plan delivery that Stephen was hired to achieve, no bonus will be awarded to him in 2009. However, it remains the Board's intention over the course of the recovery period to reward the Group Chief Executive fairly, appropriately and at market levels for achievement against the targets we have published to make the bank safe, successful and valuable again.

The Deputy Group Chief Executive, Gordon Pell has also requested to waive his annual bonus for 2009, and in light of his request the Board has agreed that no bonus will be awarded to him in respect of 2009 performance.

Executive directors have a normal maximum annual incentive opportunity of between 160% and 200% of salary (with an exceptional maximum opportunity of 200-250% of salary). The on-target opportunity is 107% to 133% of salary.

Any incentive payments to executive directors in 2010 will reflect performance across five performance categories: Strategic Direction, Finance and Operations, Stakeholders, Risk, Efficiency and Control and Capability and Development. Group business unit and functional performance will be considered as appropriate. Clawback provisions will apply.

### Long-term incentives

The company provides long-term incentives which are designed to link reward with the long-term success of the RBS Group. The awards are a significant investment in individuals by the RBS Group, and recognise the responsibility those participants have in driving its future success and for delivering share price growth.

In 2009, executive directors received long-term incentives under two plans, the Medium Term Performance Plan (MPP) and the Executive Share Option Plan (ESOP). Both plans contain clawback provisions that allow the Remuneration Committee to exercise its discretion over the vesting of awards made in 2009.

Shareholder approval will be sought at the Annual General Meeting on 28 April 2010 for a new long-term incentive plan, to replace the above plans. The key design features of the new long term incentive plan are:

- awards will be structured as performance-vesting deferred shares;

- at the discretion of the Remuneration Committee recipients will be able to elect whether they receive their award in the form of shares, or convert a portion of their award into market-value share options with the same performance conditions. The conversion rate between shares and options will be set so as to be broadly cost neutral. It is not the intention of the Remuneration Committee to offer this choice to participants for the initial award;

- the primary requirement for awards to vest is that the Remuneration Committee should be satisfied that risk management during the performance period has been effective at a Group and division/functional level. The Remuneration Committee's determination will be informed by input from the Group's Board Risk Committee and the Chief Risk Officer. Specifically, prior to vesting, the Remuneration Committee will have regard to risk and compliance across the Group and divisions and make an assessment of future risks as appropriate. It will also review whether there are any individual or more general cases where clawback should be operated;

- for awards granted in 2010, performance will be measured over a three year period, and the Remuneration Committee will review the approach for future years' awards; and

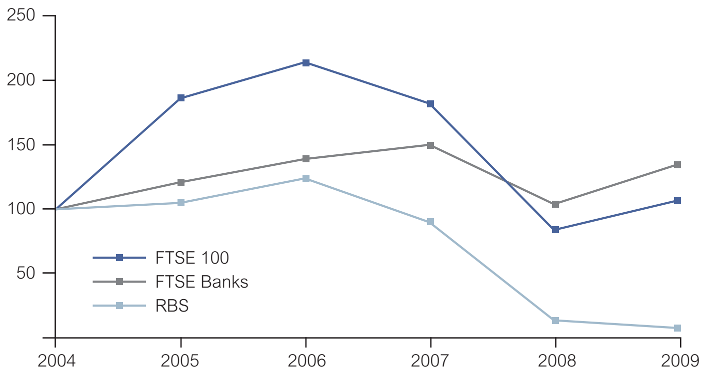
- clawback will apply to all awards. This allows the Remuneration Committee to retrospectively limit any compensation at the time of vesting if it considers that the performance factors on which reward decisions were based have later turned out not to reflect the corresponding performance in the longer term.

For executive directors, the proposed performance conditions focus on shareholder value, while factoring in the growing regulatory emphasis on risk-adjusted financial metrics. The proposal for awards in 2010 is that 50% of each award vesting is based on improvement in economic profit, 25% is based on relative Total Shareholder Return (TSR) and 25% is based on absolute TSR. There will also be an underpin whereby vesting levels may be adjusted depending on risk performance and achievements related to the strategic plan objectives.

### Shareholding guidelines
The Group operates shareholding guidelines for executive directors. The target shareholding level is 200% of gross annual salary for the Group Chief Executive and 100% of gross annual salary for executive directors. Executive directors have a period of five years in which to build up their shareholdings to meet the guideline levels.

### Total shareholder return performance
The performance graph below illustrates the performance of the company over the past five years in terms of total shareholder return compared with that of the companies comprising the FTSE 100 Index. This Index has been selected because it represents a cross-section of leading UK companies. The total shareholder return for FTSE banks for the same period has been added for comparison. The total shareholder return for the company and the indices have been rebased to 100 for 2004.

Total shareholder return




### Service contracts
The company's policy in relation to the duration of contracts with directors is that executive directors' contracts generally continue until termination by either party, subject to the required notice, or until retirement. The notice period under the service contracts of executive directors will not normally exceed 12 months. In relation to newly recruited executive directors, subject to the prior approval of the Remuneration Committee, the notice period may be extended beyond 12 months if there is a clear case for this. Where a longer period of notice is initially approved on appointment, it will normally be structured such that it will automatically reduce to 12 months in due course.

All new service contracts for executive directors are subject to approval by the Remuneration Committee. Those contracts normally include standard clauses covering the performance review process, the company's normal disciplinary procedure, and terms for dismissal in the event of failure to perform or in situations involving actions in breach of the Group's policies and standards.

Any compensation payment made in connection with the departure of an executive director will be subject to approval by the Remuneration Committee, having regard to the terms of the service contract and the reasons for termination. Any Board members who leave the company in the future will receive a severance package which is reasonable and perceived as fair.

No compensation payment was made to Guy Whittaker in respect of his ceasing to be a director.

## Directors' remuneration

| | Salary/ fees £000 | Performance bonus(1) £000 | Benefits £000 | 2009 Total £000 | 2008 Total £000 |
|---|---|---|---|---|---|
| **Chairman** | | | | | |
| Philip Hampton | 700 | — | — | 700 | — |
| **Executive directors** | | | | | |
| Stephen Hester | 1,220 | — | 7 | 1,227 | 164 |
| Gordon Pell | 932 | — | 1 | 933 | 909 |
| Bruce Van Saun (2) | 333 | 363 | 4 | 700 | — |
| **Former Chairman and executive directors** | | | | | |
| Sir Tom McKillop (3,5) | 72 | — | — | 72 | 787 |
| Guy Whittaker (4,5) | 635 | — | 3 | 638 | 833 |

Notes:

(1) Performance bonus payable in respect of performance during 2009 which will be awarded under the 2010 Deferral Plan and deferred until 2012. The performance bonus for Bruce Van Saun reflects his performance since joining the Group in October 2009, including completion of the APS, year end budget, capital planning and preparation for disposals.

(2) Appointed as a director on 1 October 2009.

(3) Appointed to the Board in September 2005 and retired as Chairman and as a director on 3 February 2009.

(4) Ceased to be a director on 30 September 2009.

(5) No payment for loss of office was made to Sir Tom McKillop or Guy Whittaker.

| | Board fees £000 | Board committee fees £000 | 2009 Total £000 | 2008 Total £000 |
|---|---|---|---|---|
| **Non-executive directors** | | | | |
| Colin Buchan | 73 | 79 | 152 | 130 |
| Sandy Crombie (1) | 88 | — | 88 | — |
| Archie Hunter | 73 | 93 | 166 | 174 |
| Joe MacHale | 73 | 38 | 111 | 106 |
| John McFarlane | 73 | 20 | 93 | 18 |
| Art Ryan | 73 | 19 | 92 | 18 |
| Philip Scott (2) | 25 | — | 25 | |
| **Former non-executive directors** | | | | |
| Dr Currie (3) | 8 | 2 | 10 | 89 |
| Bill Friedrich (3) | 8 | 4 | 12 | 106 |
| Bud Koch (3) | 8 | — | 8 | 73 |
| Janis Kong (3) | 8 | 2 | 10 | 89 |
| Sir Steve Robson (3) | 8 | 3 | 11 | 106 |
| Bob Scott (3,4) | 18 | — | 18 | 174 |
| Peter Sutherland (3) | 8 | 3 | 11 | 102 |

Notes:

(1) Appointed as Senior Independent Director on 1 June 2009. His fee is inclusive and covers all Board and Board Committee work.

(2) Appointed as a director on 1 November 2009.

(3) Retired as a director on 6 February 2009. No compensation for loss of office was made.

(4) Fee is inclusive and covered all Board and Board Committee work.

No director received any expense allowances chargeable to UK income tax or compensation for loss of office/termination payment. The non-executive directors did not receive any bonus payments or benefits.

### Medium Term Performance Plan

The Medium Term Performance Plan (MPP) was approved by shareholders in April 2001. Key executives (Management Committee members and above) are eligible for an annual award under the plan in the form of share or share equivalent awards. Whilst the rules of the plan allow awards over shares worth up to one times earnings, the Remuneration Committee has adopted a policy of granting awards based on a multiple of salary, up to one times earnings for awards granted in 2009. No changes will be made to this policy without prior consultation with shareholders.

### Share options

The Executive Share Option Plan (ESOP) was approved by shareholders at the company's 2007 Annual General Meeting. In 2009, options were granted to executive directors under the ESOP over shares worth between one and a half times salary and three times salary.

No options had their terms and conditions varied during the accounting period to 31 December 2009. No payment is required on the award of an option.

The plan was amended to introduce a clawback provisions for grants made in 2009.

The intention is that no further awards will be made under the MPP or ESOP. Instead, awards will be made under the new long term incentive plan, if approved by shareholders.

### Performance Criteria for ESOP and MPP awards granted to executive directors in 2009

Awards are subject to relative and absolute TSR measures, both weighted equally. The performance measures apply to both ESOP and MPP awards made in 2009.

The relative TSR measure compares the Group's performance against a basket of banks from the UK and overseas, weighted towards those companies most similar to the Group.

| Comparator companies | Weighting |
|---|---|
| 1. Lloyds Banking Group | 200% |
| 2. Barclays | |
| 3. Banco Santander | 150% |
| 4. HSBC | |
| 5. Standard Chartered | |
| 6. Citigroup | 100% |
| 7. Deutsche Bank | |
| 8. J.P. Morgan Chase | |
| 9. BNP Paribas | 50% |
| 10. Bank of America | |
| 11. Societe Generale | |
| 12. Credit Agricole | |
| 13. Credit Suisse Group | |
| 14. Royal Bank of Canada | |
| 15. Wells Fargo | |
| 16. National Australia Bank | |
| 17. BBVA | |
| 18. UBS | |
| 19. The Toronto Dominion Bank | |
| 20. Unicredito Italiano | |

To receive any of the shares and options subject to this performance measure, the Group's performance must be at least as good as the average of the comparator companies, with vesting as follows:

- To receive 100% of the shares and options, RBS would need to be in the top quartile of its relative TSR group.

- To receive 25% of the shares and options, RBS would need to be at the median of its relative TSR group.

The absolute TSR measure is based on the achievement of share price targets by the end of the performance period. In respect of this performance measure vesting is determined as follows:

- To receive 100% of the shares and options the share price would need to reach 70 pence or more.

- To receive 50% of the shares and options the share price would need to reach 55 pence or more.

- To receive 25% of the shares and options the share price would need to reach 40 pence.

In addition, if the Group's Remuneration Committee consider that the vesting outcome calibrated in line with the performance conditions outlined above does not reflect the Group's underlying financial results or if the Committee considers that the financial results have been achieved with excessive risk, then the terms of the awards allow for an underpin to be used to reduce vesting of an award, or to allow the award to lapse in its entirety.

# Financial results

## Summary financial statement

### Important note

This summary financial statement is a summary of information in the 2009 Report and Accounts (the 'R&A'). It does not contain sufficient information to allow for a full understanding of the results of the Group or of the state of affairs of the company. For further information, the 2009 R&A, the auditors' report on those accounts and the report of the directors should be consulted.

You can obtain a copy of the R&A and may also elect to receive all future R&As, free of charge, by contacting our Registrar, details of which can be found on page 68. A copy can be viewed at www.rbs.com

## Corporate governance

The company is committed to high standards of corporate governance, business integrity and professionalism in all its activities.

Throughout the year ended 31 December 2009, the company has complied with all of the provisions of the Combined Code issued by the Financial Reporting Council in June 2008 except in relation to the provision that the Remuneration Committee should have delegated responsibility for setting remuneration for the Chairman and executive directors. The company considers that this is a matter which should rightly be reserved for the Board. No director is involved in decisions regarding his or her own remuneration.

During the period from 6 February 2009 to 1 June 2009, the company did not have a senior independent director and from 6 February 2009 to 4 August 2009, the Remuneration Committee comprised two independent non-executive directors and the Chairman of the Board, not the three independent non-executive directors required by the Code. Since the appointment of Sandy Crombie as Senior Independent Director on 1 June 2009 and a member of the Remuneration Committee at 4 August 2009, the Chairman of the Board is no longer a member of the Remuneration Committee and the company has been compliant with both of these provisions of the Code.

The company has also complied with the Financial Reporting Council Guidance on Audit Committees issued in October 2008 in all material respects.

Under the US Sarbanes-Oxley Act of 2002 (the "Act"), specific standards of corporate governance and business and financial disclosures apply to companies with securities registered in the US. The company complies with all applicable sections of the Act.

## Summary directors' report

### Activities and business review

A review of the activities and business of the Group for the year ended 31 December 2009, of recent events and of likely future developments is contained on pages 2 to 47.

### Going concern

Having reviewed the Group's forecasts, projections and other relevant evidence, the directors have a reasonable expectation that the Group and the company will continue in operational existence for the foreseeable future. Accordingly, the financial statements of the Group and of the company have been prepared on a going concern basis.

### Directors

Photographs and biographical details of the directors are shown on pages 8 and 9.

### Report of the auditors

The auditors' report on the full accounts and the auditable part of the Directors' remuneration report for the year ended 31 December 2009 was unqualified and did not include an emphasis of matter or a statement under sections 498(2) (inadequate accounting records or returns or accounts or Directors' remuneration report not agreeing with records and returns) or 498(3) (failure to obtain necessary information and explanations) of the Companies Act 2006. The auditors' statement under section 496 (whether the information in the Report of the directors' was consistent with the accounts) was unqualified.

The following additional information is required to be disclosed by Part 6 of the Companies Act 2006.

## Share capital

Details of the ordinary and preference share capital as at 31 December 2009 are provided below.

| Allotted, called up and fully paid | £m | Number of shares – thousands |
|---|---|---|
| Ordinary shares of 25p | 14,091 | 56,365,721 |
| B shares of £0.01 | 510 | 51,000,000 |
| Dividend access share | — | — |
| Non-voting deferred shares of £0.01 | 27 | 2,660,556 |
| Additional Value Shares of £0.01 | — | — |
| Non-cumulative preference shares of US$0.01 | 2 | 308,015 |
| Non-cumulative convertible preference shares of US$0.01 | — | 1,000 |
| Non-cumulative preference shares of €0.01 | — | 2,526 |
| Non-cumulative convertible preference shares of €0.01 | — | — |
| Non-cumulative convertible preference shares of £0.25 | — | — |
| Non-cumulative convertible preference shares of £0.01 | — | 200 |
| Cumulative preference shares of £1 | 1 | 900 |
| Non-cumulative preference shares of £1 | 1 | 750 |

The rights and obligations attaching to the company's ordinary shares and preference shares are set out in the company's Articles of Association, copies of which can be obtained from Companies House in the UK or at www.rbs.com. The company's Articles of Association may only be amended by a special resolution at a general meeting of shareholders.

On a show of hands at a general meeting of the company every holder of ordinary shares and cumulative preference shares present in person or by proxy and entitled to vote shall have one vote. On a poll, every holder of ordinary shares present in person or by proxy and entitled to vote shall have one vote for every share held. On a poll holders of cumulative preference shares present in person or by proxy and entitled to vote shall have four votes for every share held. The Notice of the Annual General Meeting specifies the deadlines for exercising voting rights and appointing a proxy or proxies to vote in relation to resolutions to be passed at the meeting.

The cumulative preference shares represent less than 0.01% of the total voting rights of the company, the remaining being represented by the ordinary shares.

There are no restrictions on the transfer of ordinary shares in the company other than certain restrictions which may from time to time be imposed by laws and regulations (for example, insider trading laws). Pursuant to the Listing Rules of the Financial Services Authority certain employees of the company require the approval of the company to deal in the company's shares.

A number of the company's share plans include restrictions on transfer of shares while the shares are subject to the plans, in particular the Employee Share Ownership Plan.

Except in relation to the Dividend Access Share, the company is not aware of any agreements between shareholders that may result in restrictions on the transfer of securities and/or voting rights. There are no persons holding securities carrying special rights with regard to control of the company.

Under the rules of certain employee share plans eligible employees are entitled to acquire shares in the company and shares are held in trust for participants by The Royal Bank of Scotland plc and Ulster Bank Dublin Trust Company as Trustees. Voting rights are exercised by the Trustees on receipt of participants' instructions. If a participant does not submit an instruction to the Trustee no vote is registered.

The Royal Bank of Scotland Group plc 2001 Employee Share Trust, The Royal Bank of Scotland Group plc 2007 US Employee Share Trust and The Royal Bank of Scotland plc 1992 Employee Share Trust hold shares on behalf of the Group's employee share plans. The voting rights are exercisable by the Trustees; however, in accordance with investor protection guidelines, the Trustees abstain from voting. The Trustees would take independent advice before accepting any offer in respect of their shareholdings for the company in a takeover bid situation.

Awards granted under the company's employee share plans may be met through a combination of newly issued shares and shares acquired in the market by the company's employee benefits trust.

Under the company's Articles of Association all directors must resign and seek re-election by shareholders at least once every three years. Any non-executive directors who have served for more than nine years will also stand for annual re-election and the Board will consider their independence at that time.

A change of control of the company following a takeover bid may cause a number of agreements to which the company is party to take effect, alter or terminate. In addition, a number of executive directors' service agreements may be affected on a change of control. All of the company's employee share plans contain provisions relating to a change of control. Outstanding awards and options may vest and become exercisable on change of control, subject where appropriate to the satisfaction of any performance conditions at that time and pro-rating of awards. In the context of the company as a whole, these agreements are not considered to be significant.

## Non-cumulative preference shares

Non-cumulative preference shares entitle the holders thereof (subject to the terms of issue) to receive periodic non-cumulative cash dividends at specified fixed rates for each Series payable out of distributable profits of the company.

The non-cumulative preference shares are redeemable at the option of the company, in whole or in part from time to time at the rates detailed below plus dividends otherwise payable for the then current dividend period accrued to the date of redemption.

| Class of preference share | Number of shares in issue | Interest rate | Redemption date on or after | Redemption price per share | Debt or equity(1) |
|---|---|---|---|---|---|
| Non-cumulative preference shares of US$0.01 | | | | | |
| Series F | 8 million | 7.65% | 31 March 2007 | US$25 | Debt |
| Series H | 12 million | 7.25% | 31 March 2004 | US$25 | Debt |
| Series L | 34 million | 5.75% | 30 September 2009 | US$25 | Debt |
| Series M | 37 million | 6.4% | 30 September 2009 | US$25 | Equity |
| Series N | 40 million | 6.35% | 30 June 2010 | US$25 | Equity |
| Series P | 22 million | 6.25% | 31 December 2010 | US$25 | Equity |
| Series Q | 27 million | 6.75% | 30 June 2011 | US$25 | Equity |
| Series R | 26 million | 6.125% | 30 December 2011 | US$25 | Equity |
| Series S | 38 million | 6.6% | 30 June 2012 | US$25 | Equity |
| Series T | 64 million | 7.25% | 31 December 2012 | US$25 | Equity |
| Series U | 15,000 | 7.64% | 29 September 2017 | US$100,000 | Equity |
| Non-cumulative convertible preference shares of US$0.01 | | | | | |
| Series 1 | 1 million | 9.118% | 31 March 2010 | US$1,000 | Debt |
| Non-cumulative preference shares of €0.01 | | | | | |
| Series 1 | 1.25 million | 5.5% | 31 December 2009 | €1,000 | Equity |
| Series 2 | 1.25 million | 5.25% | 30 June 2010 | €1,000 | Equity |
| Series 3 | 26,000 | 7.0916% | 29 September 2017 | €50,000 | Equity |
| Non-cumulative convertible preference shares of £0.01 | | | | | |
| Series 1 | 200,000 | 7.387% | 31 December 2010 | £1,000 | Debt |
| Non-cumulative preference shares of £1 | | | | | |
| Series 1 | 750,000 | 8.162% | 5 October 2012 | £1,000 | Equity |

Notes:

(1) Those preference shares where the Group has an obligation to pay dividends are classified as debt; those where distributions are discretionary are classified as equity. The conversion rights attaching to the convertible preference shares may result in the Group delivering a variable number of equity shares to preference shareholders; these convertible preference shares are treated as debt.

(2) The whole of each series of preference share is issued or redeemed at the same time.

In the event that the non-cumulative convertible preference shares are not redeemed on or before the redemption date, the holder may convert them into ordinary shares in the company at the prevailing market price.

Under existing arrangements, no redemption or purchase of any non-cumulative preference shares may be made by the company without the prior consent of the UK Financial Services Authority.

On a winding-up or liquidation of the company, the holders of the non-cumulative preference shares will be entitled to receive, out of any surplus assets available for distribution to the company's shareholders (after payment of arrears of dividends on the cumulative preference shares up to the date of repayment) pari passu with the cumulative preference shares and all other shares of the company ranking pari passu with the non-cumulative preference shares as regards participation in the surplus assets of the company, a liquidation distribution per share equal to the applicable redemption price detailed in the table above, together with an amount equal to dividends for the then current dividend period accrued to the date of payment, before any distribution or payment may be made to holders of the ordinary shares as regards participation in the surplus assets of the company.

Except as described above, the holders of the non-cumulative preference shares have no right to participate in the surplus assets of the company.

Holders of the non-cumulative preference shares are not entitled to receive notice of or attend general meetings of the company except if any resolution is proposed for adoption by the shareholders of the company to vary or abrogate any of the rights attaching to the non-cumulative preference shares or proposing the winding-up or liquidation of the company. In any such case, they are entitled to receive notice of and to attend the general meeting of shareholders at which such resolution is to be proposed and are entitled to speak and vote on such resolution (but not on any other resolution). In addition, in the event that, prior to any general meeting of shareholders, the company has failed to pay in full the three most recent quarterly dividend payments due on the non-cumulative dollar preference shares (other than Series U), the two most recent semi-annual dividend payments due on the non-cumulative convertible dollar preference shares and the most recent dividend payments due on the non-cumulative euro preference shares, the non-cumulative sterling preference shares, the Series U non-cumulative dollar preference shares and the non-cumulative convertible sterling preference shares, the holders shall be entitled to receive notice of, attend, speak and vote at such meeting on all matters together with the holders of the ordinary shares. In these circumstances only, the rights of the holders of the non-cumulative preference shares so to vote shall continue until the company shall have resumed the payment in full of the dividends in arrears.

The Group has undertaken that, unless otherwise agreed with the European Commission, neither the company nor any of its direct or indirect subsidiaries (excluding companies in the ABN AMRO Group) will pay external investors any dividends or coupons on existing hybrid capital instruments (including preference shares, B shares and upper and lower tier 2 instruments) from a date starting not later than 30 April 2010 and for a period of two years thereafter ("the deferral period"), or exercise any call rights in relation to these capital instruments between 24 November 2009 and the end of the deferral period, unless there is a legal obligation to do so. Hybrid capital instruments issued after 24 November 2009 will generally not be subject to the restriction on dividend or coupon payments or call options.

## Shareholdings

The table below shows the shareholders that have notified the Group that they hold more than 3% of the voting rights in the undernoted classes of shares as at 31 December 2009.

| | Number of shares | % held |
|---|---|---|
| **Ordinary shares** | | |
| Solicitor For The Affairs of Her Majesty's Treasury As Nominee for Her Majesty's Treasury | 39,644,835,194 | 70.33 |
| **B shares** | | |
| Solicitor For The Affairs of Her Majesty's Treasury As Nominee for Her Majesty's Treasury | 51,000,000,000 | 100.00 |
| **11% cumulative preference shares** | | |
| Guardian Royal Exchange Assurance plc | 129,830 | 25.97 |
| Windsor Life Assurance Company Limited | 51,510 | 10.30 |
| Cleaning Tokens Limited | 25,500 | 5.10 |
| Mr S J and Mrs J A Cockburn | 15,520 | 3.10 |
| Mr Stephen J Cockburn | 15,290 | 3.06 |

| | Number of shares | % held |
|---|---|---|
| **5½% cumulative preference shares** | | |
| Mr P S and Mrs J M Allen, Miss C L Allen and Miss J C Allen | 112,949 | 28.23 |
| Commercial Union Assurance plc | 91,429 | 22.86 |
| Bassett-Patrick Securities Limited (1) | 46,255 | 11.56 |
| E M Behrens Charitable Trust | 20,000 | 5.00 |
| Trustees of The Stephen Cockburn Limited Pension Scheme | 19,879 | 4.97 |
| Mrs Gina Wild | 19,800 | 4.95 |
| Miss Elizabeth Hill | 16,124 | 4.03 |
| Mr W T Hardison Jr. | 13,532 | 3.38 |

Note:

(1) Notification has been received on behalf of Mr A W R Medlock and Mrs H M Medlock that they each have an interest in the holding of 5½% cumulative preference shares registered in the name of Bassett-Patrick Securities Limited noted above and that there are further holdings of 5,300 and 5,000 shares, respectively, of that class registered in each of their names.

**Independent auditors' statement to the members of The Royal Bank of Scotland Group plc**

We have examined the summary financial statement for the year ended 31 December 2009 which comprises the summary consolidated income statement, the summary consolidated statement of comprehensive income, the summary consolidated balance sheet, the summary directors' report and the summary remuneration report.

This report is made solely to the company's members, as a body, in accordance with section 428 of the Companies Act 2006. Our work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, for our audit report, or for the opinions we have formed.

### Respective responsibilities of directors and auditors

The directors are responsible for preparing the Annual Review and Summary Financial Statement in accordance with United Kingdom law.

Our responsibility is to report to you our opinion on the consistency of the summary financial statement within the Annual Review and Summary Financial Statement with the full annual accounts, the Report of the directors' and the Directors' remuneration report, and its compliance with the relevant requirements of section 428 of the Companies Act 2006 and the regulations made thereunder.

We also read the other information contained in the Annual Review and Summary Financial Statement and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the summary financial statement.

### Basis of opinion

We conducted our work in accordance with Bulletin 2008/3 issued by the Auditing Practices Board. Our report on the Group full annual financial statements describes the basis of our audit opinion on those financial statements, the Directors' remuneration report and the Report of the directors'.

### Opinion

In our opinion, the summary financial statement is consistent with the full annual accounts, the Report of the directors' and the Directors' remuneration report of The Royal Bank of Scotland Group plc for the year ended 31 December 2009 and complies with the applicable requirements of section 428 of the Companies Act 2006, and the regulations made thereunder.

Deloitte LLP
Chartered Accountants and Statutory Auditors
London, United Kingdom
24 February 2010

## Summary consolidated income statement for the year ended 31 December 2009

| | 2009 £m | 2008(1) £m |
|---|---|---|
| Net interest income | 16,504 | 18,675 |
| Non-interest income (excluding insurance premium income) | 16,642 | 867 |
| Insurance net premium income | 5,544 | 6,326 |
| Non-interest income | 22,186 | 7,193 |
| Total income | 38,690 | 25,868 |
| Administrative expenses | (18,669) | (51,048) |
| Depreciation and amortisation | (2,809) | (3,154) |
| Operating expenses* | (21,478) | (54,202) |
| Profit/(loss) before other operating charges and impairment | 17,212 | (28,334) |
| Insurance net claims | (4,857) | (4,430) |
| Impairment | (14,950) | (8,072) |
| Operating loss before tax | (2,595) | (40,836) |
| Tax | 371 | 2,323 |
| (Loss)/profit from discontinued operations, net of tax | (99) | 3,971 |
| Loss for the year | (2,323) | (34,542) |
| (Loss)/profit attributable to: | | |
| Minority interests | 349 | (10,832) |
| Preference shareholders | 878 | 536 |
| Paid-in equity holders | 57 | 60 |
| Ordinary and B shareholders | (3,607) | (24,306) |
| | (2,323) | (34,542) |
| Basic loss per ordinary and B share (2) | (6.4p) | (146.7p) |
| Diluted loss per ordinary and B share (2) | (6.4p) | (146.7p) |

* Integration and restructuring costs included in operating expenses comprise:

| | 2009 £m | 2008 £m |
|---|---|---|
| Administrative expenses | 1,268 | 1,321 |
| Depreciation and amortisation | 18 | 36 |
| | 1,286 | 1,357 |

Note:

(1) Restated for the amendment to IFRS 2 'Share-based payment', increasing the loss by £169 million.

(2) B shares rank parri-passu with ordinary shares.

**Summary statement of comprehensive income for the year ended 31 December 2009**

| | 2009 £m | 2008 £m |
|---|---|---|
| Loss after tax for the year | (2,323) | (34,542) |
| Other comprehensive income: | | |
| Available-for-sale financial assets | 2,016 | (7,406) |
| Cash flow hedges | 684 | (1,456) |
| Currency translation | (3,300) | 15,425 |
| Actuarial (losses)/gains on defined benefit plans | (3,665) | (2,287) |
| Other comprehensive (loss)/income before tax | (4,265) | 4,276 |
| Tax | 430 | 2,786 |
| Other comprehensive (loss)/income after tax | (3,835) | 7,062 |
| Total comprehensive loss for the year | (6,158) | (27,480) |

Total comprehensive loss recognised in the statement of changes in equity is attributable as follows:

| | 2009 £m | 2008 £m |
|---|---|---|
| Minority interests | (1,346) | (4,332) |
| Preference shareholders | 878 | 536 |
| Paid in equity holders | 57 | 60 |
| Ordinary and B shareholders | (5,747) | (23,744) |
| | (6,158) | (27,480) |

| Directors' remuneration | 2009 £000 | 2008 £000 |
|---|---|---|
| Non-executive directors – emoluments | 823 | 1,408 |
| Chairman and executive directors – emoluments | 4,971 | 7,132 |
| – contributions and allowances in respect of defined contribution pension schemes | — | 3 |
| | 5,794 | 8,543 |
| – amounts receivable under long-term incentive plans | 1,103 | 646 |
| – gains on exercise of share options | — | 77 |
| | 6,897 | 9,266 |

Retirement benefits are accruing to one director (2008 – one) under defined benefit schemes. No directors (2008 – nil) are accruing benefits under defined contribution schemes.

## Summary consolidated balance sheet at 31 December 2009

| | 2009 £m | 2008 £m |
|---|---|---|
| **Assets** | | |
| Cash and balances at central banks | 52,261 | 12,400 |
| Loans and advances to banks | 91,753 | 138,197 |
| Loans and advances to customers | 728,393 | 874,722 |
| Debt securities | 267,254 | 267,549 |
| Equity shares | 19,528 | 26,330 |
| Settlement balances | 12,033 | 17,832 |
| Derivatives | 441,454 | 992,559 |
| Intangible assets | 17,847 | 20,049 |
| Property, plant and equipment | 19,397 | 18,949 |
| Deferred taxation | 7,039 | 7,082 |
| Prepayments, accrued income and other assets | 20,985 | 24,402 |
| Assets of disposal groups | 18,542 | 1,581 |
| Total assets | 1,696,486 | 2,401,652 |
| **Liabilities** | | |
| Deposits by banks | 142,144 | 258,044 |
| Customer accounts | 614,202 | 639,512 |
| Debt securities in issue | 267,568 | 300,289 |
| Settlement balances and short positions | 50,876 | 54,277 |
| Derivatives | 424,141 | 971,364 |
| Accruals, deferred income and other liabilities | 30,327 | 31,482 |
| Retirement benefit liabilities | 2,963 | 2,032 |
| Deferred taxation | 2,811 | 4,165 |
| Insurance liabilities | 10,281 | 9,976 |
| Subordinated liabilities | 37,652 | 49,154 |
| Liabilities of disposal groups | 18,890 | 859 |
| Total liabilities | 1,601,855 | 2,321,154 |
| Minority interests | 16,895 | 21,619 |
| Equity owners | 77,736 | 58,879 |
| Total equity | 94,631 | 80,498 |
| Total liabilities and equity | 1,696,486 | 2,401,652 |
| **Memorandum items** | | |
| Contingent liabilities and commitments | 351,661 | 433,261 |

At 31 December 2009, provisions for loan impairment amounted to £17,283 million (2008 – £11,016 million).

The summary financial statement on pages 58 to 65 was approved by the Board of directors on 24 February 2010.

Philip Hampton
*Chairman*

Stephen Hester
*Group Chief Executive*

Bruce Van Saun
*Group Finance Director*

## Analyses of ordinary shareholders

| at 31 December 2009 | Shareholdings | Number of shares – millions | % |
|---|---|---|---|
| Individuals | 216,834 | 1,205.3 | 2.1 |
| Banks and nominee companies | 19,579 | 54,118.0 | 96.0 |
| Investment trusts | 169 | 37.1 | 0.1 |
| Insurance companies | 223 | 3.7 | 0.1 |
| Other companies | 1,654 | 694.6 | 1.2 |
| Pension trusts | 39 | 2.7 | — |
| Other corporate bodies | 99 | 304.3 | 0.5 |
| | 238,597 | 56,365.7 | 100.0 |

| | | | |
|---|---|---|---|
| Range of shareholdings: | | | |
| 1 – 1,000 | 75,577 | 32.9 | 0.1 |
| 1,001 – 10,000 | 131,549 | 486.5 | 0.8 |
| 10,001 – 100,000 | 29,634 | 673.7 | 1.2 |
| 100,001 – 1,000,000 | 1,161 | 320.0 | 0.6 |
| 1,000,001 – 10,000,000 | 473 | 1,601.3 | 2.8 |
| 10,000,001 and over | 203 | 53,251.3 | 94.5 |
| | 238,597 | 56,365.7 | 100.0 |

## Financial calendar

**Annual General Meeting**
28 April 2010 at 1pm
Edinburgh International
Conference Centre,
The Exchange, Morrison Street,
Edinburgh

**Interim results**
August 2010

### Dividends

**Payment dates:**

Cumulative preference shares — 28 May and 31 December 2010

Non-cumulative preference shares — 31 March, 30 June, 30 September and 31 December 2010

**Ex-dividend dates:**

Cumulative preference shares — 28 April 2010

**Record dates:**

Cumulative preference shares — 30 April 2010

For further information on the payment of dividends, see page 61.

### Corporate Sustainability Report

If you wish to obtain a copy please contact:

Corporate Sustainability
The Royal Bank of Scotland Group plc
PO Box 1000
Gogarburn
Edinburgh EH12 1HQ

It is also available on our website at www.rbs.com/sustainability

### Investor Relations

Shareholders can access updated information on RBS via our website (www.rbs.com/ir).

### Shareholder enquiries

Shareholdings in the company may be checked by visiting our website (www.rbs.com/shareholder). You will need the shareholder reference number printed on your share certificate or tax voucher to gain access to this information.

# Shareholder information

**Braille and audio Annual Review and Summary Financial Statement**
Shareholders requiring a Braille or audio version of the Annual Review and Summary Financial Statement should contact the Registrar on 0870 702 0135.

**ShareGift**
The company is aware that shareholders who hold a small number of shares may be retaining these shares because dealing costs make it uneconomical to dispose of them. ShareGift, the charity share donation scheme is a free service operated by The Orr Mackintosh Foundation (registered charity 1052686) to enable shareholders to donate shares to charity.

Should you wish to donate your shares to charity in this way you should contact ShareGift for further information:

ShareGift, The Orr Mackintosh Foundation,
17 Carlton House Terrace, London SW1Y 5AH
Telephone: 020 7930 3737
www.sharegift.org

Donating your shares in this way will not give rise to either a gain or a loss for UK capital gains tax purposes and you may be able to reclaim UK income tax on gifted shares. Further information can be obtained from HM Revenue & Customs.

**Warning to shareholders – boiler room scams**
Over the last year, many companies have become aware that their shareholders have received unsolicited phone calls or correspondence concerning investment matters. These are typically from overseas based 'brokers' who target UK shareholders, offering to sell them what often turn out to be worthless or high risk shares in US or UK investments. These operations are commonly known as 'boiler rooms'. These 'brokers' can be very persistent and extremely persuasive, and a 2006 survey by the Financial Services Authority (FSA) has reported that the average amount lost by investors is around £20,000.

It is not just the novice investor that has been duped in this way; many of the victims had been successfully investing for several years. Shareholders are advised to be very wary of any unsolicited advice, offers to buy shares at a discount or offers of free company reports. If you receive any unsolicited investment advice:

- Make sure you get the correct name of the person and organisation;
- Check that they are properly authorised by the FSA before getting involved by visiting www.fsa.gov.uk/register;
- Report the matter to the FSA either by calling 0845 606 1234 or visiting www.moneymadeclear.fsa.gov.uk; and
- If the calls persist, hang up.

If you deal with an unauthorised firm, you will not be eligible to receive payment under the Financial Services Compensation Scheme. The FSA can be contacted by completing an online form at *www.fsa.gov.uk/pages/doing/regulated/law/alerts/overseas.shtml*

Details of any share dealing facilities that the company endorses will be included in company mailings.

More detailed information on this or similar activity can be found on the FSA website *www.moneymadeclear.fsa.gov.uk*

**Capital gains tax**
For shareholders who held RBS ordinary shares at 31 March 1982, the market value of one ordinary share held was 103p. After adjusting for the following:

- the 1 March 1985 rights issue;
- the 1 September 1989 capitalisation issue;
- the bonus issue of Additional Value Shares on 12 July 2000;
- the 8 May 2007 bonus issue;
- the 6 June 2008 rights issue; and
- the 15 September 2008 capitalisation issue,

the adjusted 31 March 1982 base value of one ordinary share held currently is 83.3p. Further adjustments will be necessary for shareholders who took up their basic entitlement under the 1 December 2008 and/or 14 April 2009 open offers.

For shareholders who held NatWest ordinary shares at 31 March 1982, the market vale of one ordinary share held was 91.2p for shareholders who accepted the basic terms of the RBS offer. This takes account of the following:

- the August 1984 rights issue of NatWest ordinary shares;
- the June 1986 rights issue of NatWest ordinary shares;
- the June 1989 bonus issue of NatWest ordinary shares;
- the bonus issue of Additional Value Shares on 12 July 2000;
- the 8 May 2007 bonus issue;
- the 6 June 2008 rights issue; and
- the 15 September 2008 capitalisation issue.

Further adjustments to the adjusted 31 March 1982 value will be necessary for shareholders who took up their basic entitlement under the 1 December 2008 and/or 14 April 2009 open offers.

**The information set out above is intended as a general guide only and is based on current United Kingdom legislation and HM Revenue & Customs practice as at this date. This information deals only with the position of individual shareholders who are resident in the United Kingdom for tax purposes, who are the beneficial owners of their shares and who hold their shares as an investment. It does not deal with the position of shareholders other than individual shareholders, shareholders who are resident outside the United Kingdom for tax purposes or certain types of shareholders, such as dealers in securities.**

# Important addresses

**Shareholder enquiries**
**Registrar**
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Facsimile: +44 (0)870 703 6009
Website: www.investorcentre.co.uk/contactus

**ADR Depositary Bank**
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Telephone: +1 201 680 6825 (International)
Email: shrrelations@bnymellon.com
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